EDCI HOLDINGS, INC.
Form 10-Q
May 14, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

For the transition period from to

Commission File Number 001-34015

EDCI HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	26-2694280 (I.R.S. Employer Identification No.)
11 East 44th Street, New York, NY (Address of Principal Executive Offices)	10017 (Zip Code)

(646) 401-0084
(Registrant’s Telephone Number, Including Area Code)

NOT APPLICABLE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o
Non-Accelerated Filer (Do not check if a smaller reporting company) o Smaller Reporting Company x

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

The number of shares outstanding of the Registrant’s common stock, par value $.02 per share, at May 11, 2010 was 6,730,099 shares.

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EDCI Holdings, Inc. and Subsidiaries

Part I – Financial Information:

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

	For the Period January 1, 2010 to March 31, 2010
Common stockholders' Equity as of December 31, 2009	$ 78,397
Effects of Adopting the liquidation basis of accounting	
Initial adjustment of EDC assets to estimated net realizable value	(18,624)
Initial adjustment of liabilities to net settlement amounts	5,345
Liquidation accrual	(8,261)
Net Assets (liquidation basis) as of January 1, 2010	56,857
Other	482
Exercise of stock options	76
Distributions to stockholders	(21,000)
Effect of foreign currency translation	(155)
Changes in net assets in liquidation	(20,597)
Net assets in liquidation - March 31, 2010	$ 36,260

See Notes to Consolidated Financial Statements

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EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)
(IN THOUSANDS)

		March 31, 2010 (Unaudited)
ASSETS		
Cash and cash equivalents	$	51,706
Restricted cash		23,989
Investments		870
Accounts receivable, net		8,244
Employee benefit receivable from Universal		2,121
Inventories, net		3,970
Prepaid expenses and other current assets		7,803
Deferred income taxes		1,812
Assets held for sale		6,400
Total assets	$	106,915
LIABILITIES AND NET ASSETS IN LIQUIDATION		
Accounts payable	$	7,414
Accrued expenses and other liabilities		13,835
Liquidation accrual		7,422
Loans from employees		1,506
Universal rebate payable		1,836
Deferred income taxes		66
Reserve for uncertain tax positions		3,316
Pension and other defined benefit obligations		35,114
Total liabilities		70,509
Noncontrolling interest at estimated value		146
Total liabilities and noncontrolling interest		70,655
Net assets in liquidation	$	36,260

See Notes to Consolidated Financial Statements

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EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (GOING CONCERN BASIS)
(IN THOUSANDS)

		December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$	78,093
Restricted cash		23,492
Accounts receivable, net of allowances for doubtful accounts of $2,853 and $3,008 for December 31, 2009 and 2008, respectively		16,446
Current portion of long-term receivable		770
Inventories, net		3,668
Prepaid expenses and other current assets		7,941
Deferred income taxes		27
Assets held for sale		6,400
Current assets, discontinued operations		208
Total Current Assets		137,045
Restricted cash		3,314
Property, plant and equipment, net		16,429
Long-term receivable		1,670
Long term investments		870
Deferred income taxes		1,895
Other assets		3,011
TOTAL ASSETS	$	164,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$	13,447
Accrued expenses and other liabilities		22,496
Income taxes payable		553
Loans from employees		976
Current portion of long-term debt		437
Current liabilities, discontinued operations		1,584
Total Current Liabilities		39,493
Other non-current liabilities		3,592
Loans from employees		1,610
Long-term debt		1,488
Pension and other defined benefit obligations		34,096
Deferred income taxes		287
Non-current liabilities, discontinued operations		-
Total Liabilities		80,566
Commitments and contingencies		
Stockholders' Equity:		

Preferred stock, $.01 par value; authorized: 1,000,000 shares, no shares		
issued and outstanding		-
Common stock, $.02 par value; authorized: 15,000,000 shares		
7,019,436 shares issued 2009 and 2008		140
Additional paid in capital		371,373
Accumulated deficit		(297,835)
Accumulated other comprehensive income		6,376
Treasury stock at cost:		
2009 -- 333,299 shares; 2008 -- 324,794 shares		(1,657)
Total EDCI Holdings, Inc. Stockholders' Equity		78,397
Noncontrolling interest in subsidiary company		5,271
Total Stockholders' Equity		83,668
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	164,234

See Notes to Consolidated Financial Statements

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EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS (GOING CONCERN BASIS)
(IN THOUSANDS)

		Three Months Ended March 31, 2009 (Unaudited)
REVENUES:		
Product revenues	$	31,081
Service revenues		10,170
Total Revenues		41,251
COST OF REVENUES:		
Cost of product revenues		27,973
Cost of service revenues		7,708
Total Cost of Revenues		35,681
GROSS PROFIT		5,570
OPERATING EXPENSES:		
Selling, general and administrative expense		7,123
Amortization of intangible assets		-
Total Operating Expenses		7,123
OPERATING LOSS		(1,553)
OTHER INCOME (EXPENSE):		
Interest income		217
Interest expense		(231)
Gain on currency swap, net		2,111
Loss on currency transaction, net		(31)
Other income, net		11
Total Other Income (Expense)		2,077
INCOME FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES		524
Income tax benefit		(154)
INCOME FROM CONTINUING OPERATIONS		678
DISCONTINUED OPERATIONS, NET OF TAX:		
LOSS FROM DISCONTINUED OPERATIONS		(1,362)
GAIN ON SALE OF EDC U.S. OPERATIONS		128
NET LOSS		(556)
Net loss attributable to noncontrolling interest in subsidiary company		(1)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$	(555)
AMOUNTS ATTRIBUTABLE TO EDCI HOLDINGS, INC. COMMON SHAREHOLDERS		
Income from continuing operations	$	644
Loss from discontinued operations		(1,327)
Gain on sale of EDC U.S. Operations		128
Net Loss	$	(555)

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (GOING CONCERN BASIS)
(IN THOUSANDS)

	Three Months Ended March 31, 2009 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (555)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Gain on sale of EDC U.S. Operations	(128)
Depreciation and amortization	1,626
Stock compensation expense	96
Unrealized gain on currency swap	(2,111)
Foreign currency transaction loss	31
Gain on adjustment to discontinued operations tax payable	(362)
Deferred income tax provision	17
Non-cash interest expense	121
Noncontrolling interest in subsidiary company	(1)
Other	7
Changes in operating assets and liabilities, net of effects of business dispositions and acquisitions:	
Restricted cash	557
Accounts receivable	8,656
Inventories	1,200
Prepaid and other current assets	520
Long-term receivables	52
Other assets	897
Accounts payable	(4,315)
Accrued liabilities and income taxes payable	(4,634)
Other liabilities	(352)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,322
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(438)
Cash restricted under long-term borrowing agreement	3,183
Proceeds from sale of U.S. operations	1,384
Purchase of available-for-sale securities	-
Proceeds from the sale of short-term securities	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,129
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of employee loans	(1,041)
Repayment of capital lease obligations	(68)
Repayment of long-term borrowing	(773)
Acquisitions of treasury stock	-
Settlement of cross-currency swap	(2,093)
NET CASH USED IN FINANCING ACTIVITIES	(3,975)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(867)
NET INCREASE IN CASH AND CASH EQUIVALENTS	609

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		75,112
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	75,721

See Notes to Consolidated Financial Statements

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

1. Business Overview

EDCI Holdings, Inc. ("EDCI"), the majority shareholder of Entertainment Distribution Company, LLC ("EDC"), a European provider of supply chain services to the optical disc market, is a company engaged in a final Plan of Complete Liquidation and Dissolution ("Plan of Dissolution"). The Plan of Dissolution was approved by EDCI's shareholders at a Special Meeting held on January 7, 2010. Accordingly, EDCI commenced the voluntary dissolution, liquidation and winding up of the Company in accordance with Delaware law. For financial reporting purposes, the Plan of Dissolution was adopted effective January 1, 2010, as the Company's operating results during the period January 1, 2010 through January 7, 2010, were nominal.

Upon adoption of the Plan of Dissolution, we have ceased all of EDCI's business activities except for those relating to winding up EDCI's business and affairs during a minimum three-year period required under Delaware law, including, but not limited to, gradually settling and closing its business, prosecuting and defending suits by or against EDCI, seeking to convert EDCI's assets into cash or cash equivalents, discharging or making provision for discharging EDCI's known and unknown liabilities, making cash distributions to our stockholders, withdrawing from all jurisdictions in which EDCI is qualified to do business and, subject to statutory limitations, taking other actions necessary to wind up the Company's business affairs. If EDCI is unable to convert any assets to cash or cash equivalents by the end of the three-year period, we will either distribute EDCI's remaining assets in-kind among our stockholders according to their interests or place them in a liquidating trust for the benefit of our stockholders.

EDCI's ownership of 97.99% of the membership units of EDC is an asset of EDCI that is subject to the Plan of Dissolution. The Plan of Dissolution does not directly involve the operating business, assets, liabilities or corporate existence of EDC and EDC plans to continue to honor the terms of its long term customer agreement that expires in May 2015. Beginning in January 2010, EDCI's consolidated financials are required to reflect EDC's assets and liabilities under the liquidation basis of accounting (see Note 2) and it should be noted that during EDCI's three-year dissolution period, EDCI will continue to seek value for its investment in EDC by exploring strategic alternatives and seeking, as appropriate, cash distributions, subject to applicable legal requirements. While EDC is currently examining the possibility of making a distribution, including from EDC's German and UK subsidiaries ("EDC's European Operation") to EDCI, such a distribution remains subject to the future operating performance of EDC's European Operation and compliance with German law and tax considerations, and the distribution of any cash from EDC to EDCI is subject to additional security obligations and additional U.S. legal and tax considerations. Further, EDCI is unable to provide any assurance that its efforts to seek value for its investment in EDC will result in any proceeds. In particular, the cooperation of Universal Music Group ("Universal"), EDC's largest customer, is critical to any sale of EDC's European Operation and based on negotiations with a potential acquirer during the fourth quarter of 2009 and first quarter of 2010, EDC does not believe Universal will cooperate on acceptable terms with any such transaction. As a result, any transaction involving the sale of EDC's European Operation in the near term is unlikely. If EDCI continues to own any interest in EDC at the end of the three year dissolution period, EDCI anticipates transferring such interests to a liquidating trust, for the benefit of our stockholders.

On February 1, 2010, pursuant to the Company's Plan of Dissolution, EDCI made an initial dissolution distribution of $3.12 per share of its common stock. In aggregate, approximately $21.0 million of EDCI's cash was returned to its shareholders.

EDCI had previously advised its shareholders that it was in the process of analyzing the structure and feasibility of a potential tender offer for up to $10 million, and that any tender offer would be contingent on EDCI obtaining guidance from the Securities and Exchange Commission (the "SEC") that it will be successful in obtaining relief from certain continued SEC reporting requirement. In preliminary conversations with the SEC, EDCI was not able to obtain such guidance and therefore, consistent with the alternatives described in the Company's proxy statement related to the approval of the Company's dissolution, the Company now plans to ask its shareholders to approve a proposal to effect a reverse stock split of the Company's outstanding Common Stock which, if approved, would reduce the number of record holders of the Company's Common Stock to a number that would enable the Company to remove its Common Stock from registration under the Securities Exchange Act of 1934 (the "Exchange Act"). If the reverse stock split proposal is approved by its shareholders, the Company intends to terminate its status as a reporting Company under the Exchange Act, thereby eliminating the requirement that the Company file periodic reports with the SEC and eliminating the expenses of being a reporting company. The reverse split transaction would add further costs and would require cashing-out a number of our smaller stockholders. The Company has engaged a financial advisor to assist a special committee of the Board of Directors in establishing the cash-out price. Cashing-out shareholders would require using a portion of the $10 million previously reserved for the potential tender offer and would also put EDCI's net operating losses at risk, and thus may limit or preclude additional purchases of shares through a contemplated tender offer. EDCI believes it is prudent to continue to protect those tax-loss carryforwards at this time, as they would limit EDCI's taxes in the event of any distributions from EDC's European Operations. Therefore, at this time, EDCI will defer any further consideration of a potential tender offer until after the contemplated reverse split is either completed or rejected by EDCI's stockholders. If EDCI ultimately determines not to effect any tender offer, any portion of the $10 million amount that had been reserved for the contemplated tender offer would be subsequently distributed as a dissolution distribution payment. The Company intends to file a preliminary proxy statement with the SEC setting forth this and related proposals in the third quarter of 2010. The range of dissolution proceeds in the Company's proxy statement filed November 16, 2009 did not include any estimates as to potential distributions from EDC due to the uncertainty of the value of EDCI's investment in EDC at that time. EDC is currently examining the possibility of making a distribution from EDC, including from EDC's European Operations, but such a distribution remains subject to the future operating performance of EDC's European Operations and compliance with German law and tax considerations, and the distribution of any cash from EDC to EDCI is subject to additional security obligations and additional U.S. legal considerations.

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

2. Basis of Presentation

For financial reporting purposes, EDCI adopted the liquidation basis of accounting effective January 1, 2010. The Plan of Dissolution was approved by the Company's shareholders on January 7, 2010. Operating results during the stub period ended January 7, 2010 were nominal. Under the liquidation basis of accounting, the principal financial statements required are a Statement of Net Assets in Liquidation and a Statement of Changes in Net Assets in Liquidation. Further, under the liquidation basis of accounting, assets are stated at their estimated net realizable value, which is the non-discounted amount of cash, or its equivalent, into which an asset is expected to be converted in the due course of business less direct costs, while liabilities are reported at their estimated settlement amount, which is the non-discounted amounts of cash, or its equivalent, expected to be paid to liquidate an obligation in the due course of business, including direct costs. Additionally, under the liquidation basis of accounting, we are required to establish a reserve for all future estimated general and administrative expenses and other costs expected to be incurred during the liquidation period. The reserve for these estimated expenses includes primarily accruals for people costs (payroll and benefits), facilities, professional services and litigation costs, and corporate expenses (insurance, directors' fees and statutory fees). Further, the estimates of our costs will vary with the length of time necessary to complete the Plan of Dissolution. These estimates will be periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will not materially change. Accordingly, it is not possible to predict with certainty the timing or aggregate amount which will ultimately be distributed to stockholders and no assurance can be given that the distributions will equal or exceed the estimate presented in the accompanying Statement of Net Assets in Liquidation. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amount represent estimates, based on present facts and circumstances, of the net realizable value of the assets and the costs associated with carrying out the Plan of Dissolution. The actual values and costs associated with carrying out the Plan of Dissolution may differ from amounts reflected in the accompanying financial statements because of the plan's inherent uncertainty.

The unaudited Statement of Net Assets in Liquidation and the Statement of Changes in Net Assets in Liquidation have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission, and should be read in conjunction with the audited Consolidated Financial Statements previously filed on the Company's Form 10-K for the year ended December 31, 2009. In the opinion of management, the statements reflect all adjustments necessary for a fair presentation of the net assets of EDCI. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, which are not required for interim purposes, have been condensed or omitted. The consolidated financial statements as of December 31, 2009 and for the unaudited three months ended March 31, 2009 were prepared on the going concern basis of accounting. We issued these unaudited condensed consolidated financial statements by filing with the SEC and have evaluated subsequent events up to the time of filing.

3. Adoption of Liquidation Basis of Accounting

Upon the adoption of the liquidation basis of accounting, the Company recorded the following adjustment to adjust assets to estimated net realizable value and liabilities to net settlement amounts:

Initial Adjustment of EDC Assets to Estimated Net Realizable Value		Amount
Write down of fixed assets	$	15,613
Write down of spare parts		3,011

	$	18,624

Initial Adjustment of Liabilities to Net Settlement Amounts		Amount
Write down of deferred taxes		(221)
Adjustment of noncontrolling interest to estimated settlement value		(5,124)
	$	(5,345)

The adjustment to deferred income taxes of $0.2 million was the result of EDCI updating its estimate of the net settlement value of this liability in liquidation. The adjustment of noncontrolling interest in the amount of $5.1 million was the result of this liability having a settlement amount upon EDCI's adoption of liquidation accounting of less than what was previously recorded.

The Company was required to make significant estimates and exercise judgment in determining the accrued costs of liquidation as of January 1, 2010. Upon transition to the liquidation basis of accounting, the Company accrued the following costs expected to be incurred in liquidation:

Accrued Costs of Liquidation		Amount
Payroll and severance related	$	3,104
Professional fees		744
Wind down costs related to EDC's UK facility		380
Accrual of carrying costs related to EDC's Kings Mountain facility		1,800
Outside services and other wind down expenses		2,233
	$	8,261

EDCI HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS IN LIQUIDATION (Liquidation Basis)
(Tabular Amounts in Thousands)
(Unaudited)

The adjustment of wind down costs related to EDC's UK facility in the amount of $0.4 million was the result of the Company's updated estimate of the costs to wind down the EDC Blackburn, UK operations, which were consolidated into EDC's operating facility in Hannover, Germany as of December 31, 2009. The accrual of carrying costs associated with EDC's Kings Mountain building is the result of EDC recording estimated carrying costs expected to be incurred during the three year liquidation period.

4. Selected Financial Data

Statement of Net Assets in Liquidation - Consolidating

The Statement of Net Assets in Liquidation presented below is consolidating and is intended to illustrate which components of the consolidated Statement of Net Assets in Liquidation are attributable to EDCI and EDC, respectively.

STATEMENT OF NET ASSETS IN LIQUIDATION (LIQUIDATION BASIS)

	March 31, 2010 (Unaudited)			
	EDC (b)	EDCI	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 22,527	$ 29,179	$ -	$ 51,706
Restricted cash	23,989	-	-	

(Dollars in millions)

As of the end of each period:

Serious delinquency rate(2)
3.53

%

3.53

%

3.67

%

3.91

%

3.91

%

4.00

%

4.08

%

4.27

%
Seriously delinquent loan count
622,052

622,052

650,918

690,911

690,911

708,847

729,772

767,161

Nonperforming loans(3)
$
240,472

$
240,472

$
243,981

$
248,379

$
248,379

$
248,134

$

245,848

$
248,444

Foreclosed property inventory:

Number of properties[4]
109,266

109,266

114,157

118,528

118,528

122,616

135,719

153,224

Carrying value
$
9,421

$
9,421

$
9,721

$
9,692

$
9,692

$
11,039

$
12,480

$
14,086

Combined loss reserves[5]
$
63,365

$
63,365

$
69,633

$
71,512

$
71,512

$
70,741

$
68,887

$
66,240

Total loss reserves[6]
$
66,694

$
66,694

$
73,119

$
75,264

$
75,264

$
73,973

$
73,116

$
70,466

During the period:

Foreclosed property (number of properties):

Acquisitions[4]
91,483

43,783

47,700

199,696

47,256

45,194

53,697

53,549

Dispositions
(100,745
)

(48,674
)

(52,071
)

(243,657
)

(51,344
)

(58,297
)

(71,202
)

(62,814
)

Credit-related (income) expenses[7]
$
(630
)

$
(3,015
)

$
2,385

$
27,218

$
5,397

$
4,782

$
5,933

$
11,106

Credit losses[8]
$
8,733

$
3,778

$
4,955

$
18,346

$
4,548

$
4,384

$
3,810

$
5,604

REO net sales prices to UPB[9]
58

%

59

%

56

%

54

%

55

%

54

%

54

%

53

%

Loan workout activity (number of loans):

Home retention loan workouts[10]
96,761

41,226

55,535

248,658

60,453

68,227

59,019

60,959

Short sales and deeds-in-lieu of foreclosure
46,226

24,013

22,213

79,833

22,231

19,306

21,176

17,120

Total loan workouts
142,987

65,239

77,748

328,491

82,684

87,533

80,195

78,079

Loan workouts as a percentage of delinquent loans in our guaranty book of business[11]
26.45

%

24.14

%

28.85

%

27.05

%

27.24

%

28.39

%

25.71

%

25.01

%

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

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

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

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

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

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

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

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

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

(10) Consists of (a) modifications, which do not include trial modifications or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 39: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009, as these loans are now 59% of our single-family guaranty book of business, resulting in a smaller percentage of our loans becoming seriously delinquent.

Although our single-family serious delinquency rate has decreased significantly since the first quarter of 2010, our serious delinquency rate and the period of time that loans remain seriously delinquent has been negatively affected in recent periods by the increase in the average number of days it is taking to complete a foreclosure. As described in "Business—Executive Summary—Reducing Credit Losses on Our Legacy Book of Business—Managing Timelines for Workouts and Foreclosures" in our 2011 Form 10-K, high levels of foreclosures, continuing issues in the servicer foreclosure process and changing legislative, regulatory and judicial requirements have lengthened the time it takes to foreclose on a mortgage loan in many states. We expect serious delinquency rates will continue to be affected in the future by home price changes, changes in other macroeconomic conditions, the length of the foreclosure process and the volume of loan modifications. We expect the number of our single-family loans that are seriously delinquent to remain well above pre-2008 levels for years. In addition, we anticipate that it will take a significant amount of time before our REO inventory is reduced to pre-2008 levels.

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

Reducing Credit Losses on Our Legacy Book of Business

To reduce the credit losses we ultimately incur on our legacy book of business, we have been focusing our efforts on the following strategies:

- Helping underwater and other eligible Fannie Mae borrowers refinance to more sustainable loans, including loans that significantly reduce their monthly payments, through HARP and our Refi Plus initiative;
- Reducing defaults by offering borrowers solutions that significantly reduce their monthly payments and enable them to stay in their homes ("home retention solutions");
- Pursuing "foreclosure alternatives," which help borrowers avoid foreclosure and reduce the severity of the losses we incur overall;
- Efficiently managing timelines for home retention solutions, foreclosure alternatives and foreclosures;
- Improving servicing standards and servicers' execution and consistency;
- Managing our REO inventory to minimize costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders, servicers and providers of credit enhancement.

See "Business—Executive Summary—Reducing Credit Losses on our Legacy Book of Business" in our 2011 Form 10-K, as well as "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in both this report and our 2011 Form 10-K, for more information on the strategies and actions we are taking to minimize our credit losses.

Providing Liquidity and Support to the Mortgage Market

Our Liquidity and Support Activities

We provide liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well

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as for refinancing existing mortgages. We provided approximately $2.7 trillion in liquidity to the mortgage market from January 1, 2009 through June 30, 2012 through our purchases and guarantees of loans, which enabled borrowers to complete 8.1 million mortgage refinancings and 2.2 million home purchases, and provided financing for 1.3 million units of multifamily housing.

- We have strengthened our underwriting and eligibility standards to support sustainable homeownership. As a result, our new single-family book of business has a strong credit risk profile. Our support enables borrowers to have access to a variety of conforming mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage that protects homeowners from interest rate swings.
- We helped 1.1 million homeowners stay in their homes or otherwise avoid foreclosure from January 1, 2009 through June 30, 2012, which helped to support neighborhoods, home prices and the housing market. Moreover, borrowers' ability to pay their modified loans has improved in recent periods as we have enhanced the structure of our modifications. One year after modification, 75% of the modifications we made in the second quarter of 2011 were current or paid off, compared with 70% of the modifications we made in the second quarter of 2010. See "Table 40: Percentage of Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification" for more information on the performance of our modifications.
- We helped borrowers refinance loans through Refi Plus. From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through June 30, 2012, we have acquired approximately 2.2 million loans refinanced under our Refi Plus initiative. Refinancings delivered to us through Refi Plus in the second quarter of 2012 reduced borrowers' monthly mortgage payments by an average of $208. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed from 2009 through 2011 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2011 Form 10-K in "Business—Business Segments—Capital Markets."

2012 Acquisitions and Market Share

In the first half of 2012, we purchased or guaranteed approximately $416 billion in loans, measured by unpaid principal balance, which includes $25.5 billion in delinquent loans we purchased from our single-family MBS trusts. These activities enabled our lender customers to finance approximately 1.8 million single-family conventional loans and loans for approximately 236,000 units in multifamily properties during the first half of 2012.

We remained the largest single issuer of mortgage-related securities in the secondary market during the second quarter of 2012, with an estimated market share of new single-family mortgage-related securities issuances of 46%. Our estimated market share of new single-family mortgage-related securities issuances was 51% in the first quarter of 2012 and 43% in the second quarter of 2011.

We remained a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 21% of the outstanding debt on multifamily properties as of March 31, 2012 (the latest date for which information was available).

Housing and Mortgage Market and Economic Conditions

Economic growth slowed in the second quarter of 2012 compared with the first quarter of 2012. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 1.5% on an annualized basis in the second quarter of 2012, according to the Bureau of Economic Analysis advance estimate, compared with an increase of 2.0% in the first quarter of 2012. Growth in employment also slowed during the second quarter of 2012, as the overall economy gained an estimated 219,000 jobs, compared with 677,000 jobs in the first quarter, according to the U.S. Bureau of Labor Statistics. Over the past 12 months ending in June 2012, the economy created 1.7 million non-farm jobs. The unemployment rate was 8.2% in June 2012 and in March 2012. In July 2012, non-farm payrolls strengthened, rising by 163,000 during the month, but the unemployment rate rose to 8.3%.

Despite the slowdown in economic growth and continued high unemployment, housing activity improved or remained mostly unchanged during the second quarter of 2012. Total existing home sales averaged 4.5 million units annualized in the second quarter of 2012, a 0.7% decrease from the first quarter of 2012, according to data available through June 2012 from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 25% of existing home sales in June 2012, compared with 29% in March 2012 and 30% in June 2011.

New single-family home sales strengthened during the quarter, averaging an annualized rate of 363,000 units, a 3.1% increase from the prior quarter.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained high at 7.4% as of March 31, 2012, according to the Mortgage Bankers Association National Delinquency Survey. According to the National Association of REALTORS® July 2012 Existing Home Sales Report, the months' supply of existing unsold homes was 6.6 months as of June 30, 2012, compared with 6.2 months as of March 31, 2012 and 9.1 months as of June 30, 2011. Properties that are vacant and held off the market, combined with a portion of properties backing seriously delinquent mortgages not currently listed for sale, represent a significant shadow inventory putting downward pressure on home prices.

After declining by an estimated 23.6% from their peak in third quarter of 2006 to the first quarter of 2012, we estimate that home prices on a national basis increased by 3.2% in the second quarter of 2012. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices over the past several years has left many homeowners with "negative equity" in their homes, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will walk away from their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, approximately 11 million, or 24%, of all residential properties with mortgages were in a negative equity position at the end of the first quarter of 2012, the most recent date for which information is available. This potential supply also weighs on the supply/demand balance putting downward pressure on home prices. See "Risk Factors" in our 2011 Form 10-K for a description of risks to our business associated with the weak economy and housing market.

During the second quarter of 2012, the multifamily sector continued expanding due to ongoing rental demand and limited new apartment supply. Preliminary third-party data suggest that the national vacancy rate for professionally managed, institutional investment-type apartment properties decreased to an estimated 5.75% as of June 30, 2012, compared with an estimated 6.0% as of March 31, 2012 and an estimated 6.8% as of June 30, 2011. In addition, asking rents increased in the second quarter of 2012 by an estimated 1.0% on a national basis. As indicated by data from Axiometrics, multifamily concession rates, the rental discount rate as a percentage of asking rents, decreased during the second quarter of 2012 to -2.3% as of June 30, 2012, compared with -3.0% as of March 31, 2012 and -3.3% as of December 31, 2011. The increase in rental demand is also reflected in an estimated positive net absorption, or net change in the number of occupied rental units after deducting new supply added during the second quarter of 2012, of more than 25,000 units during the second quarter, according to preliminary data from Reis, Inc. Net absorption during second quarter declined from more than 36,000 units during the first quarter of 2012, even though the spring and summer months typically experience more net absorption than other times of the year. We believe the slowing in net absorption during the second quarter of 2012 is likely due to property owners responding to increased demand by pursuing rent increases rather than increasing occupancy.

Multifamily construction starts were at an annualized rate of over 220,000 units as of June 30, 2012, based on data from the Census Bureau. Although the number of completions expected to occur in 2012 and early 2013 remains below historical norms, based on recent trends, we expect that multifamily starts could return to their historical norm of an annualized rate of approximately 245,000 units started by as early as the end of this year. There is a potential for over-supply occurring over the next 24 months in a limited number of localized areas. Nevertheless, the overall national rental market's pace of supply is expected to remain constrained, based on expected construction completions, annualized obsolescence and anticipated household formation trends.

Outlook

Overall Market Conditions. We expect mortgage loan delinquencies and foreclosures to remain at high levels in the second half of 2012. The high level of delinquent mortgage loans has resulted in high levels of foreclosures, which have slowed the return of housing inventory to pre-housing crisis levels. Despite these pressures, we saw improvement in the housing market in the first half of 2012.

Although our results for the second half of 2012 may not be as strong as our results for the first half, we expect our financial results for 2012 overall to be significantly better than our 2011 results. We expect that single-family default and severity rates will remain high in the second half of 2012 compared to pre-housing crisis levels, but will be lower in 2012 overall than in 2011 overall. Despite signs of multifamily sector improvement at the national level, we expect

multifamily foreclosures in 2012 to remain generally commensurate with 2011 levels as certain local markets and properties continue to exhibit weak fundamentals. Conditions may worsen if the unemployment rate increases on either a national or regional basis.
As a result of the recently implemented changes to HARP, we expect that if interest rates remain low we will continue to acquire a high volume of refinancings under HARP. In particular, we expect to acquire many refinancings with LTV ratios greater than 125%, because borrowers were unable to refinance loans with LTV ratios greater than 125% in large numbers

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until changes to HARP were fully implemented in the second quarter of 2012. We expect the elevated volume of HARP refinancings will decrease when interest rates rise sufficiently or when there is no longer a large population of borrowers with loans that have high LTV ratios who would benefit from refinancing. Overall, we now expect the volume of refinancings we acquire in 2012 will be similar to or greater than the volume of refinancings we acquired in 2011. For a description of the recently implemented changes to HARP, see “Business—Making Home Affordable Program—Changes to the Home Affordable Refinance Program” in our 2011 Form 10-K. Our loan acquisitions have been lower in 2012 than they otherwise could have been as a result of the decrease in the maximum size of loans we may acquire in specified high-cost areas from $729,750 to $625,500, which went into effect in the fourth quarter of 2011. As a result of these factors, we expect the volume of our loan acquisitions in 2012 will be similar to or greater than the volume of our loan acquisitions in 2011.

We estimate that total originations in the U.S. single-family mortgage market in 2012 will increase from 2011 levels by approximately 9% from an estimated $1.36 trillion to an estimated $1.49 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will increase from approximately $900 billion in 2011 to approximately $980 billion in 2012. Refinancings comprised approximately 78% of our single-family business volume in the second quarter of 2012, compared with approximately 83% in the first quarter of 2012, and approximately 76% for all of 2011.

Home Prices. After declining by an estimated 23.6% from their peak in the third quarter of 2006 to the first quarter of 2012, we estimate that home prices on a national basis increased by 3.2% in the second quarter of 2012. Although we believe home prices may decline again through early 2013, we expect that, if current market trends continue, home prices will not decline on a national basis below their first quarter 2012 levels. Future home price changes may be very different from our estimates as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies, and housing finance reform; the management of the Federal Reserve’s MBS holdings; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of the European debt crisis. Because of these uncertainties, the actual home price changes we experience may differ significantly from these estimates. We also expect significant regional variation in home price changes and the timing of home price stabilization. Our estimates of home price changes are based on our home price index, which is calculated differently from the S&P/Case-Shiller U.S. National Home Price Index and therefore results in different percentages for comparable changes. Our estimated 23.6% peak-to-trough decline in home prices on a national basis corresponds to a 35.1% decline according to the S&P/Case-Shiller’s National Home Price Index.

Credit-Related Income or Expenses and Credit Losses. Our credit-related income or expenses, which include our benefit or provision for credit losses, reflect our recognition of losses on our loans. Through our provision for credit losses, we recognize credit-related expenses on loans in the period in which we determine that we have incurred a probable loss on the loans as of the end of the period, or in which we have granted concessions to the borrowers. Accordingly, our credit-related income or expenses in each period are affected by changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities and foreclosures we complete, and estimated recoveries from our lender and mortgage insurer counterparties. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds-in-lieu of foreclosure.

We expect that our credit-related expenses for all of 2012 will be lower than for 2011. In addition, we expect our credit losses to remain high in 2012 relative to pre-housing crisis levels. To the extent delays in foreclosures continue in 2012, our realization of some credit losses will be delayed. We further describe our outlook for credit-related expenses in “Summary of Our Financial Performance for the Second Quarter and First Half of 2012—Our Expectations Regarding Future Loss Reserves and Credit-Related Expenses (Income).”

Uncertainty Regarding our Future Status and Ability to Pay Dividends to Treasury. There is significant uncertainty in the current market environment, and any changes in the trends in macroeconomic factors that we currently anticipate, such as home prices and unemployment, may cause our future credit-related expenses or income and credit losses to vary significantly from our current expectations. The dividend payments we make on Treasury’s senior preferred stock are substantial, currently $11.7 billion per year. We have paid over $25 billion in dividends to Treasury since entering into conservatorship in 2008. Although we may experience period-to-period volatility in earnings and comprehensive income, we do not expect to generate net income or comprehensive income in excess of our annual dividend obligation to Treasury over the long term. However, we expect that in some future quarters we will be able to generate comprehensive income sufficient to cover at least a portion of our quarterly dividend payment to Treasury. We also expect that, over time, our dividend obligation to Treasury will increasingly drive our future draws under the senior preferred stock purchase agreement.

Receiving additional draws under the senior preferred stock purchase agreement would further increase the dividends we owe to Treasury on the senior preferred stock.

In addition, there is significant uncertainty regarding the future of our company, including how long the company will continue to be in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. We expect this uncertainty to continue. In February 2011, Treasury and the Department of Housing and Urban Development (“HUD”) released a report to Congress on reforming America’s housing finance market. The report states that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. The report emphasizes the importance of providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In February 2012, Treasury Secretary Geithner stated that the Administration intended to release new details around approaches to housing finance reform, including winding down Fannie Mae and Freddie Mac, and to work with Congressional leaders to explore options for legislation, but that he does not expect housing finance reform legislation to be enacted in 2012.

We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See “Legislative and Regulatory Developments” in this report and “Business—Legislative and Regulatory Developments” in our 2011 Form 10-K for discussions of recent legislative reform of the financial services industry and proposals for GSE reform that could affect our business. See “Risk Factors” in our 2011 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary, including estimates and expectations regarding our future financial results, the profitability of single-family loans we have acquired, our single-family credit losses, our loss reserves and credit-related expenses, and our draws from and dividends to be paid to Treasury. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, including future home prices and the future performance of our loans. Our future estimates of our performance, as well as the actual amounts, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic variables; government policy; the length of time it takes to complete foreclosures; changes in generally accepted accounting principles (“GAAP”); credit availability; borrower behavior; the volume of loans we modify; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; changes in the fair value of our assets and liabilities; impairments of our assets; and many other factors, including those discussed in “Risk Factors,” “Forward-Looking Statements” and elsewhere in this report, and in “Risk Factors” in our 2011 Form 10-K. For example, if the economy were to enter a deep recession, we would expect actual outcomes to differ substantially from our current expectations.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

The information in this section updates and supplements information regarding legislative and regulatory developments set forth in “Business—Legislative and Regulatory Developments” and “Business—Our Charter and Regulation of Our Activities” in our 2011 Form 10-K and in “MD&A—Legislative and Regulatory Developments” in our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (“First Quarter 2012 Form 10-Q”). Also see “Risk Factors” in this report and our 2011 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

GSE Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation’s housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was signed into law in July 2010, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac.

In February 2011, Treasury and HUD released their report to Congress on reforming America’s housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae’s and Freddie Mac’s role in the market and ultimately wind down both institutions.

The report identifies a number of policy steps that could be used to wind down Fannie Mae and Freddie Mac, reduce the government's role in housing finance and help bring private capital back to the mortgage market. These steps include

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(1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established in the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"), (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae's and Freddie Mac's portfolios, consistent with Treasury's senior preferred stock purchase agreements with the companies.

In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac. The first option would privatize housing finance almost entirely. The second option would add a government guaranty mechanism that could scale up during times of crisis. The third option would involve the government offering catastrophic reinsurance behind private mortgage guarantors. Each of these options assumes the continued presence of programs operated by FHA, the Department of Agriculture and the Veterans Administration to assist targeted groups of borrowers. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. A copy of the report can be found on the Housing Finance Reform section of Treasury's Web site, www.Treasury.gov. We are providing Treasury's Web site address solely for your information, and information appearing on Treasury's Web site is not incorporated into this quarterly report on Form 10-Q.

In February 2012, Treasury Secretary Geithner stated that the Administration intended to release new details around approaches to housing finance reform, including winding down Fannie Mae and Freddie Mac, and to work with Congressional leaders to explore options for legislation, but that he does not expect housing finance reform legislation to be enacted in 2012.

During 2011, Congress held hearings on the future status of Fannie Mae and Freddie Mac, and members of Congress offered legislative proposals relating to the future status of the GSEs. We expect additional hearings on GSE reform and additional legislation to be considered and proposals to be discussed, including proposals that would result in a substantial change to our business structure or that involve Fannie Mae's liquidation or dissolution. Several bills have been introduced that would place the GSEs into receivership after a period of time and either grant federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or leave secondary mortgage market activities to entities in the private sector. For example, legislation has been introduced in both the House of Representatives and the Senate that would require FHFA to make a determination within two years of enactment regarding whether the GSEs were financially viable and, if the GSEs were determined not to be financially viable, to place them into receivership. As drafted, these bills may, upon enactment, impair our ability to issue securities in the capital markets and therefore our ability to conduct our business, absent the federal government providing an explicit guarantee of our existing and future liabilities.

In addition to bills that seek to resolve the status of the GSEs, numerous bills have been introduced and considered that could constrain the current operations of the GSEs or alter the existing authority that FHFA or Treasury has over the enterprises. For example, the Subcommittee on Capital Markets and Government Sponsored Enterprises of the House Financial Services Committee has approved bills that would:

- suspend current compensation packages and apply a government pay scale for GSE employees;
- require the GSEs to increase guaranty fees;
- subject GSE loans to the risk retention standards in the Dodd-Frank Act;
- require a quicker reduction of GSE portfolios than required under the senior preferred stock purchase agreement;
- require Treasury to pre-approve all GSE debt issuances;
- repeal the GSEs' affordable housing goals;
- provide additional authority to FHFA's Inspector General;
- prohibit FHFA from approving any new GSE products during conservatorship or receivership, with certain exceptions;
- prevent Treasury from amending the senior preferred stock purchase agreement to reduce the current dividend rate on our senior preferred stock;
-

abolish the Affordable Housing Trust Fund that the GSEs are required to fund except when such contributions have been temporarily suspended by FHFA;

- require FHFA to identify mission critical assets of the GSEs and require the GSEs to dispose of non-mission critical assets;

- cap the maximum aggregate amount of funds Treasury or any other agency or entity of the federal government can provide to the GSEs subject to certain qualifications;
- grant FHFA the authority to revoke the enterprises' charters following receivership under certain circumstances; and
- subject the GSEs to the Freedom of Information Act.

Of these bills that passed at a subcommittee level, the only one that has passed the full committee is the bill that would put GSE employees on a government pay scale. We expect additional legislation relating to the GSEs to be introduced and considered by Congress. We cannot predict the prospects for the enactment, timing or content of legislative proposals concerning the future status of the GSEs, their regulation or operations.

In sum, there continues to be uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. See "Risk Factors" in our 2011 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company. Also see "Risk Factors" in this report for a discussion of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Principal Forgiveness

On July 31, 2012, the Acting Director of FHFA announced FHFA's decision not to direct Fannie Mae and Freddie Mac to participate in Treasury's HAMP Principal Reduction Alternative program. Based on its analysis, FHFA concluded that the economic benefit of participating in that program does not outweigh the costs and risks. In a letter sent to Congress regarding FHFA's decision, Acting Director DeMarco previewed for Congress several housing-related initiatives to strengthen the loss mitigation and borrower assistance efforts of Fannie Mae and Freddie Mac, as well as improve the operation of the housing finance market. These initiatives include new and consistent policies for lender representations and warranties, alignment and simplification of the Fannie Mae and Freddie Mac short sale programs, and further enhancements for borrowers looking to refinance their mortgages.

Prudential Management and Operational Standards

As required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing Finance Regulatory Reform Act of 2008 (together, 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 Federal Home Loan Banks in the following 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. These standards are established as guidelines, which the Director of FHFA may modify, revoke or add to at any time by order or notice. The rule also specifies actions FHFA may take if a regulated entity fails to meet one or more of the standards or fails to comply with the rule, such as requiring the entity to submit a corrective plan or increasing its capital requirements.

Proposed Housing Goals for 2012 to 2014

On June 11, 2012, FHFA published a proposed rule establishing the following single-family home purchase and refinance housing goal benchmarks for 2012 to 2014 for Fannie Mae and Freddie Mac. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- Low-Income Families Home Purchase Benchmark: At least 20% 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 7% 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 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.

- Low-Income Areas Home Purchase Subgoal Benchmark: At least 11% 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 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 FHFA's rule establishing our housing goals, private-label mortgage-related securities, second liens and single-family government loans do not count towards the housing goals. In addition, only permanent modifications of mortgages under HAMP completed during the year count towards the housing goals; trial modifications will not be counted. Moreover, these modifications count only towards the single-family low-income families refinance goal, not any of the home purchase goals. Refinancings under HARP also count toward the single-family low-income families refinancing goal.

If we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance will be measured against these benchmarks and against goals-qualifying originations in the primary mortgage market. We will be in compliance with the housing goals if we meet either the benchmarks or market share measures.

To meet FHFA's proposed goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 4 below. There is no market-based alternative measurement for the multifamily goals.

Table 4: Proposed Multifamily Housing Goals for 2012 to 2014

	Goals for 2012	2013	2014
	(in units)		
Affordable to low-income families	251,000	245,000	223,000
Affordable to very low-income families	60,000	59,000	53,000

See "Risk Factors" in our 2011 Form 10 K for a description of how we may be unable to meet our housing goals and how actions we may take to meet these goals and other regulatory requirements could adversely affect our business, results of operations and financial condition.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

On April 9, 2012, FHFA issued an Advisory Bulletin, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention," which was effective upon issuance and is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000.

Among other requirements, the Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell, as "loss" when the loan is no more than 180 days delinquent, except in certain specified circumstances (such as properly secured loans with an LTV ratio equal to or less than 60%), and charge off the portion of the loan classified as "loss." The Advisory Bulletin also specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses.

The accounting methods outlined in FHFA's Advisory Bulletin are different from our current methods of accounting for single-family loans that are 180 days or more delinquent. As described in "Risk Factors," we believe that implementation of these changes in our accounting methods present significant operational challenges for us. We have not yet determined when we will implement the accounting changes specified in the Advisory Bulletin. We are currently assessing the impact of implementing these accounting changes on our future financial results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed

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consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in “Note 1, Summary of Significant Accounting Policies” in this report and in our 2011 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. We have identified three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

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

See “MD&A—Critical Accounting Policies and Estimates” in our 2011 Form 10-K for a detailed discussion of these critical accounting policies and estimates. We provide below information about our Level 3 assets and liabilities as of June 30, 2012 as compared with December 31, 2011. We also describe any significant changes in the judgments and assumptions we made during the first half of 2012 in applying our critical accounting policies and significant changes to critical estimates.

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and our fair value measurement is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in “Note 12, Fair Value.”

Fair Value Hierarchy—Level 3 Assets and Liabilities

The assets and liabilities that we have classified as Level 3 consist primarily of financial instruments for which there is limited market activity and therefore little or no price transparency. As a result, the valuation techniques that we use to estimate the fair value of Level 3 instruments involve significant unobservable inputs, which generally are more subjective and involve a high degree of management judgment and assumptions. Our Level 3 assets and liabilities consist of certain mortgage-backed securities and residual interests, certain mortgage loans, certain acquired property, certain long-term debt arrangements and certain highly structured, complex derivative instruments.

Table 5 presents a comparison of the amount of financial assets carried in our condensed consolidated balance sheets at fair value on a recurring basis (“recurring assets”) that were classified as Level 3 as of June 30, 2012 and December 31, 2011. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the amount of financial instruments carried at fair value on a recurring basis and classified as Level 3 to vary each period.

Table 5: Level 3 Recurring Financial Assets at Fair Value

	As of			
	June 30, 2012		December 31, 2011	
	(Dollars in millions)			
Trading securities	$2,305		$4,238	
Available-for-sale securities	26,328		29,492	
Mortgage loans	2,331		2,319	
Other assets	236		238	
Level 3 recurring assets	$31,200		$36,287	
Total assets	$3,195,620		$3,211,484	
Total recurring assets measured at fair value	$134,161		$156,552	
Level 3 recurring assets as a percentage of total assets	1	%	1	%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	23	%	23	%
Total recurring assets measured at fair value as a percentage of total assets	4	%	5	%

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include mortgage loans and acquired property. The fair value of Level 3 nonrecurring assets totaled $27.3 billion as of June 30, 2012.

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $1.7 billion as of June 30, 2012 and $1.2 billion as of December 31, 2011, and other liabilities with a fair value of $162 million as of June 30, 2012 and $173 million as of December 31, 2011.

Other-Than-Temporary Impairment of Investment Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. Our evaluation requires significant management judgment and consideration of various factors to determine if we will receive the amortized cost basis of our investment securities. We evaluate a debt security for other-than-temporary impairment using an econometric model that estimates the present value of cash flows given multiple factors. These factors include: the severity and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments. We rely on expected future cash flow projections to determine if we will recover the amortized cost basis of our available-for-sale securities.

In the second quarter of 2012, we updated our assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities to incorporate recent observable market trends, which included extending the time it takes to liquidate loans underlying these securities and increasing severity rates for loans where the servicer stopped advancing payments. These updates resulted in lower net present value of cash flow projections on our Alt-A and subprime securities and increased our other-than-temporary impairment expense by approximately $500 million. We provide more detailed information on our accounting for other-than-temporary impairment in “Note 5, Investments in Securities.”

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our condensed consolidated results of operations for the periods indicated and should be read together with our condensed consolidated financial statements, including the accompanying notes. Table 6 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 6: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
	(Dollars in millions)					
Net interest income	$5,428	$4,972	$456	$10,625	$9,932	$693
Fee and other income	395	265	130	770	502	268
Net revenues	$5,823	$5,237	$586	$11,395	$10,434	$961
Investment gains, net	131	171	(40)	247	246	1
Net other-than-temporary impairments	(599)	(56)	(543)	(663)	(100)	(563)
Fair value losses, net	(2,449)	(1,634)	(815)	(2,166)	(1,345)	(821)
Administrative expenses	(567)	(569)	2	(1,131)	(1,174)	43
Credit-related income (expenses)						
Benefit (provision) for credit losses	3,041	(6,537)	9,578	1,041	(17,091)	18,132
Foreclosed property income (expense)	70	478	(408)	(269)	(10)	(259)
Total credit-related income (expenses)	3,111	(6,059)	9,170	772	(17,101)	17,873
Other non-interest expenses[1]	(331)	(75)	(256)	(617)	(414)	(203)
Income (loss) before federal income taxes	5,119	(2,985)	8,104	7,837	(9,454)	17,291
Benefit for federal income taxes	—	93	(93)	—	91	(91)
Net income (loss)	5,119	(2,892)	8,011	7,837	(9,363)	17,200
Less: Net income attributable to the noncontrolling interest	(5)	(1)	(4)	(4)	(1)	(3)
Net income (loss) attributable to Fannie Mae	$5,114	$(2,893)	$8,007	$7,833	$(9,364)	$17,197
Total comprehensive income (loss) attributable to Fannie Mae	$5,442	$(2,891)	$8,333	$8,523	$(9,181)	$17,704

[1] Consists of debt extinguishment losses, net and other expenses.

Net Interest Income

Table 7 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 8 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 7: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,					
	2012			2011		
	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	$373,943	$3,599	3.85 %	$394,687	$3,720	3.77 %
Mortgage loans of consolidated trusts	2,614,284	28,424	4.35	2,614,392	31,613	4.84
Total mortgage loans	2,988,227	32,023	4.29	3,009,079	35,333	4.70
Mortgage-related securities	274,585	3,266	4.76	319,395	4,029	5.05
Elimination of Fannie Mae MBS held in portfolio	(177,235)	(2,178)	4.92	(204,465)	(2,643)	5.17
Total mortgage-related securities, net	97,350	1,088	4.47	114,930	1,386	4.82
Non-mortgage securities[1]	54,451	20	0.15	76,829	30	0.15
Federal funds sold and securities purchased under agreements to resell or similar arrangements	21,916	10	0.18	21,833	6	0.11
Advances to lenders	5,637	30	2.11	3,144	19	2.39
Total interest-earning assets	$3,167,581	$33,171	4.19 %	$3,225,815	$36,774	4.56 %
Interest-bearing liabilities:						
Short-term debt[2]	$89,820	$30	0.13 %	$162,071	$79	0.19 %
Long-term debt	569,211	2,997	2.11	589,269	3,802	2.58
Total short-term and long-term funding debt	659,031	3,027	1.84	751,340	3,881	2.07
Debt securities of consolidated trusts	2,684,443	26,894	4.01	2,657,571	30,564	4.60
Elimination of Fannie Mae MBS held in portfolio	(177,235)	(2,178)	4.92	(204,465)	(2,643)	5.17
Total debt securities of consolidated trusts held by third parties	2,507,208	24,716	3.94	2,453,106	27,921	4.55
Total interest-bearing liabilities	$3,166,239	$27,743	3.50 %	$3,204,446	$31,802	3.97 %
Impact of net non-interest bearing funding	$1,342		— %	$21,369		0.03 %
Net interest income/net interest yield		$5,428	0.69 %		$4,972	0.62 %
Net interest income/net interest yield of consolidated trusts[3]		$1,530	0.23 %		$1,049	0.16 %

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	For the Six Months Ended June 30,					
	2012			2011		
	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	$375,983	$7,168	3.81 %	$399,898	$7,445	3.72 %
Mortgage loans of consolidated trusts	2,605,744	57,425	4.41	2,605,087	63,478	4.87
Total mortgage loans	2,981,727	64,593	4.33	3,004,985	70,923	4.72
Mortgage-related securities	281,518	6,724	4.78	326,727	8,274	5.06
Elimination of Fannie Mae MBS held in portfolio	(181,725)	(4,483)	4.93	(209,418)	(5,436)	5.19
Total mortgage-related securities, net	99,793	2,241	4.49	117,309	2,838	4.84
Non-mortgage securities[1]	61,693	43	0.14	78,266	75	0.19
Federal funds sold and securities purchased under agreements to resell or similar arrangements	29,701	23	0.15	17,810	13	0.15
Advances to lenders	5,343	55	2.04	3,614	40	2.20
Total interest-earning assets	$3,178,257	$66,955	4.21 %	$3,221,984	$73,889	4.59 %
Interest-bearing liabilities:						
Short-term debt[2]	$111,564	$71	0.13 %	$150,523	$183	0.24 %
Long-term debt	573,683	6,182	2.16	610,594	7,998	2.62
Total short-term and long-term funding debt	685,247	6,253	1.82	761,117	8,181	2.15
Debt securities of consolidated trusts	2,673,505	54,560	4.08	2,653,872	61,212	4.61
Elimination of Fannie Mae MBS held in portfolio	(181,725)	(4,483)	4.93	(209,418)	(5,436)	5.19
Total debt securities of consolidated trusts held by third parties	2,491,780	50,077	4.02	2,444,454	55,776	4.56
Total interest-bearing liabilities	$3,177,027	$56,330	3.55 %	$3,205,571	$63,957	3.99 %
Impact of net non-interest bearing funding	$1,230		0.01 %	$16,413		0.02 %
Net interest income/net interest yield		$10,625	0.67 %		$9,932	0.62 %
Net interest income/net interest yield of consolidated trusts[3]		$2,865	0.22 %		$2,266	0.17 %

	As of June 30,	
	2012	2011
Selected benchmark interest rates[4]		
3-month LIBOR	0.46%	0.25 %
2-year swap rate	0.55	0.70
5-year swap rate	0.97	2.03
30-year Fannie Mae MBS par coupon rate	2.57	4.02

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(1) Includes cash equivalents.

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

(3) Net interest income of consolidated trusts represents interest income from mortgage loans of consolidated trusts less interest expense from debt securities of consolidated trusts. Net interest yield is calculated based on net interest income from consolidated trusts divided by average balance of mortgage loans of consolidated trusts.

(4)

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

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Table 8: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended June 30, 2012 vs. 2011			For the Six Months Ended June 30, 2012 vs. 2011		
	Total	Variance Due to:(1)		Total	Variance Due to:(1)	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(121)	$(198)	$77	$(277)	$(453)	$176
Mortgage loans of consolidated trusts	(3,189)	(1)	(3,188)	(6,053)	16	(6,069)
Total mortgage loans	(3,310)	(199)	(3,111)	(6,330)	(437)	(5,893)
Mortgage-related securities	(763)	(542)	(221)	(1,550)	(1,099)	(451)
Elimination of Fannie Mae MBS held in portfolio	465	339	126	953	693	260
Total mortgage-related securities, net	(298)	(203)	(95)	(597)	(406)	(191)
Non-mortgage securities(2)	(10)	(8)	(2)	(32)	(14)	(18)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	4	—	4	10	9	1
Advances to lenders	11	14	(3)	15	18	(3)
Total interest income	(3,603)	(396)	(3,207)	(6,934)	(830)	(6,104)
Interest expense:						
Short-term debt (3)	(49)	(29)	(20)	(112)	(39)	(73)
Long-term debt	(805)	(126)	(679)	(1,816)	(462)	(1,354)
Total short-term and long-term funding debt	(854)	(155)	(699)	(1,928)	(501)	(1,427)
Debt securities of consolidated trusts	(3,670)	306	(3,976)	(6,652)	450	(7,102)
Elimination of Fannie Mae MBS held in portfolio	465	339	126	953	693	260
Total debt securities of consolidated trusts held by third parties	(3,205)	645	(3,850)	(5,699)	1,143	(6,842)
Total interest expense	(4,059)	490	(4,549)	(7,627)	642	(8,269)
Net interest income	$456	$(886)	$1,342	$693	$(1,472)	$2,165

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

(2) Includes cash equivalents.

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

Although our portfolio balance declined, net interest income increased in the second quarter and first half of 2012, as compared with the second quarter and first half of 2011, primarily due to lower interest expense on funding debt, a reduction in the amount of interest income not recognized for nonaccrual mortgage loans and accelerated net amortization income on loans and debt of consolidated trusts. These factors were partially offset by lower interest income on Fannie Mae mortgage loans and securities. The primary drivers of these changes were:

- lower interest expense on funding debt due to lower funding needs and lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt;
- higher coupon interest income recognized on mortgage loans due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans due to a decline in the balance of nonaccrual loans in our condensed consolidated balance sheet as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent;
- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by a high volume of prepayments due to declining interest rates;
- lower interest income on Fannie Mae mortgage loans due to a decrease in average balance and new business acquisitions which continued to replace higher-yielding loans with loans issued at lower mortgage rates; and
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lower interest income on mortgage securities due to lower interest rates and a decrease in the balance of our mortgage securities, as we continue to manage our portfolio requirements of the senior preferred stock purchase agreement.

Additionally, our net interest income and net interest yield were higher than they would have otherwise been in the second quarter and first half of 2012 and 2011 because our debt funding needs were lower than would otherwise have been required as a result of funds we have received from Treasury to date under the senior preferred stock purchase agreement and dividends paid to Treasury are not recognized as interest expense.

Table 9 displays the interest income not recognized for loans on nonaccrual status and the resulting reduction in our net interest yield on total interest earning assets for the periods indicated.

Table 9: Impact of Nonaccrual Loans on Net Interest Income

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2012		2011		2012		2011	
	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]
	(Dollars in millions)							
Mortgage loans of Fannie Mae	$ (896)		$ (1,184)		$ (1,878)		$ (2,545)	
Mortgage loans of consolidated trusts	(147)		(219)		(327)		(478)	
Total mortgage loans	$ (1,043)	(13) bp	$ (1,403)	(17) bp	$ (2,205)	(14) bp	$ (3,023)	(18) bp

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

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

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

Other-Than-Temporary Impairment of Investment Securities

Net other-than-temporary impairment for the second quarter and first half of 2012 increased significantly compared with the second quarter and first half of 2011, driven primarily by a decrease in the net present value of projected cash flows on our Alt-A and subprime private-label securities due to higher projected loss severity rates on loans underlying these securities. The net present value of projected cash flows decreased because we updated our assumptions due to recent observable market trends, including: (1) extending the time it takes to liquidate the loans; and (2) increasing loss severity rates for loans where the servicer stopped advancing payments. Although national home prices generally improved in the first half of 2012, the benefit of home price appreciation is not expected to offset the impact of extended liquidation timelines on loans underlying these securities and the increase in loss severity rates for loans where the servicer stopped advancing payments.

Fair Value Losses, Net

Table 10 displays the components of our fair value gains and losses.

Table 10: Fair Value Losses, Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Risk management derivatives fair value losses attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(391)	$(658)	$(765)	$(1,293)
Net change in fair value during the period	(1,430)	(958)	(877)	(207)
Total risk management derivatives fair value losses, net	(1,821)	(1,616)	(1,642)	(1,500)
Mortgage commitment derivatives fair value losses, net	(562)	(61)	(767)	(38)
Total derivatives fair value losses, net	(2,383)	(1,677)	(2,409)	(1,538)
Trading securities (losses) gains, net	(14)	135	270	360
Other, net[1]	(52)	(92)	(27)	(167)
Fair value losses, net	$(2,449)	$(1,634)	$(2,166)	$(1,345)

	2012	2011
5-year swap rate:		
As of January 1	1.22 %	2.18 %
As of March 31	1.27	2.47
As of June 30	0.97	2.03

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

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

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 recognized risk management derivative fair value losses in the second quarter and first half of 2012 and 2011 primarily as a result of a decrease in the fair value of our pay-fixed derivatives due to a decline in swap rates during the periods.

We present, by derivative instrument type, the fair value gains and losses on our derivatives for the three and six months ended June 30, 2012 and 2011 in “Note 9, Derivative Instruments.”

Mortgage Commitment Derivatives Fair Value Losses, Net

We recognized fair value losses on our mortgage commitments in the second quarter and first half of 2012 and 2011 primarily due to losses on commitments to sell mortgage-related securities as a result of an increase in prices as interest rates decreased during the commitment period.

Trading Securities (Losses) Gains, Net

The losses from our trading securities in the second quarter of 2012 were primarily driven by the widening of credit spreads on commercial mortgage-backed securities (“CMBS”). The gains from our trading securities in the first half of 2012 were primarily due to the narrowing of credit spreads on CMBS in the first quarter of 2012, partially offset by the widening of credit spreads in the second quarter of 2012.

The gains from our trading securities in the second quarter of 2011 were primarily driven by a decrease in interest rates. The gains from our trading securities in the first half of 2011 were primarily driven by the narrowing of credit spreads on CMBS.

Credit-Related (Income) Expenses

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

(Benefit) Provision for Credit Losses

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

Table 11 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an "effective reserve," apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. As of June 30, 2012, we estimate that nearly two-thirds of this amount represents credit losses we expect to realize in the future and over one-third will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in "Credit Loss Performance Metrics."

Table 11: Total Loss Reserves

	As of	
	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Allowance for loan losses	$63,375	$72,156
Reserve for guaranty losses[(1)]	1,320	994
Combined loss reserves	64,695	73,150
Allowance for accrued interest receivable	2,068	2,496
Allowance for preforeclosure property taxes and insurance receivable[(2)]	1,278	1,292
Total loss reserves	68,041	76,938
Fair value losses previously recognized on acquired credit-impaired loans[(3)]	14,955	16,273
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$82,996	$93,211

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

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

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

The following table displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the three and six months ended June 30, 2012 and 2011.

Table 12: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended June 30,					
	2012			2011		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$57,001	$ 13,108	$70,109	$53,708	$ 13,849	$67,557
(Benefit) provision for loan losses	(3,329)	(58)	(3,387)	3,040	2,762	5,802
Charge-offs[(1)(2)]	(3,783)	(208)	(3,991)	(5,460)	(758)	(6,218)
Recoveries	441	44	485	1,819	550	2,369
Transfers[(3)]	1,616	(1,616)	—	2,762	(2,762)	—
Other[(4)]	136	23	159	97	(101)	(4)
Ending balance[(5)]	$52,082	$ 11,293	$63,375	$55,966	$ 13,540	$69,506
Reserve for guaranty losses:						
Beginning balance	$997	$—	$997	$257	$—	$257
Provision for guaranty losses	346	—	346	735	—	735
Charge-offs	(49)	—	(49)	(33)	—	(33)
Recoveries	26	—	26	1	—	1
Ending balance	$1,320	$—	$1,320	$960	$—	$960
Combined loss reserves:						
Beginning balance	$57,998	$ 13,108	$71,106	$53,965	$ 13,849	$67,814
Total (benefit) provision for credit losses	(2,983)	(58)	(3,041)	3,775	2,762	6,537
Charge-offs[(1)(2)]	(3,832)	(208)	(4,040)	(5,493)	(758)	(6,251)
Recoveries	467	44	511	1,820	550	2,370
Transfers[(3)]	1,616	(1,616)	—	2,762	(2,762)	—
Other[(4)]	136	23	159	97	(101)	(4)
Ending balance[(5)]	$53,402	$ 11,293	$64,695	$56,926	$ 13,540	$70,466

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	For the Six Months Ended June 30,					
	2012			2011		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$57,309	$ 14,847	$72,156	$48,530	$13,026	$61,556
(Benefit) provision for loan losses	(1,946)	539	(1,407)	10,199	6,190	16,389
Charge-offs(1)(2)	(8,316)	(471)	(8,787)	(11,165)	(1,206)	(12,371)
Recoveries	862	109	971	2,349	1,502	3,851
Transfers(3)	3,817	(3,817)	—	5,969	(5,969)	—
Other(4)	356	86	442	84	(3)	81
Ending balance(5)	$52,082	$ 11,293	$63,375	$55,966	$13,540	$69,506
Reserve for guaranty losses:						
Beginning balance	$994	$—	$994	$323	$—	$323
Provision for guaranty losses	366	—	366	702	—	702
Charge-offs	(100)	—	(100)	(68)	—	(68)
Recoveries	60	—	60	3	—	3
Ending balance	$1,320	$—	$1,320	$960	$—	$960
Combined loss reserves:						
Beginning balance	$58,303	$ 14,847	$73,150	$48,853	$13,026	$61,879
Total (benefit) provision for credit losses	(1,580)	539	(1,041)	10,901	6,190	17,091
Charge-offs(1)(2)	(8,416)	(471)	(8,887)	(11,233)	(1,206)	(12,439)
Recoveries	922	109	1,031	2,352	1,502	3,854
Transfers(3)	3,817	(3,817)	—	5,969	(5,969)	—
Other(4)	356	86	442	84	(3)	81
Ending balance(5)	$53,402	$ 11,293	$64,695	$56,926	$13,540	$70,466

	As of June 30, 2012	December 31, 2011
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$63,365	$71,512
Multifamily	1,330	1,638
Total	$64,695	$73,150
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	2.23 %	2.52 %
Multifamily	0.67	0.84
Combined loss reserves as a percentage of:		
Total guaranty book of business	2.13 %	2.41 %
Recorded investment in nonperforming loans	26.57	29.03

(1) Includes accrued interest of \$238 million and \$438 million for the three months ended June 30, 2012 and 2011, respectively, and \$511 million and \$824 million for the six months ended June 30, 2012 and 2011, respectively.

(2) While we purchase the substantial majority of loans that are four or more months delinquent from our MBS trusts, we do not exercise this option to purchase loans during a forbearance period. Accordingly, charge-offs of consolidated trusts generally represent loans that remained in our consolidated trusts at the time of default.

(3) Includes transfers from trusts for delinquent loan purchases.

(4) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The provision for credit losses, charge-offs, recoveries and transfer activity included in this table reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

(5) Includes \$293 million and \$414 million as of June 30, 2012 and 2011, respectively, for acquired credit-impaired loans.

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

The significant improvement in our second quarter results was primarily due to recognition of a benefit for credit losses of \$3.0 billion in the second quarter of 2012 compared with a provision for credit losses of \$6.5 billion in the second quarter of 2011. This benefit for credit losses was due to a decrease in our total loss reserves driven primarily by an improvement in the profile of our single-family book of business resulting from an increase in actual home prices, including the sales prices of our REO properties. In addition, our single-family serious delinquency rate continued to decline, driven in large part by the quality and growth of our new single-family book of business, our modification efforts and current period foreclosures. Key factors impacting our credit-related results include:

- Home prices increased by 3.2% in the second quarter of 2012 compared with 1.2% in the second quarter of 2011. We historically see seasonal improvement in home prices in the second quarter; however, the home price increase in the second quarter of 2012 was larger than expected and the largest quarterly increase we have seen in the last few years. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default.
- Sales prices on dispositions of our REO properties improved in the second quarter of 2012 as a result of strong demand. We received net proceeds from our REO sales equal to 59% of the loans’ unpaid principal balance in the second quarter of 2012, compared with 56% in the first quarter of 2012 and 54% in the second quarter of 2011.
- Our single-family serious delinquency rate declined to 3.53% as of June 30, 2012 from 3.67% as of March 31, 2012 and 4.08% as of June 30, 2011.
- In addition to the reasons described above, the cash flow projections on our individually impaired loans improved due to accelerated expected prepayment speeds as a result of lower mortgage interest rates: the average 30-year fixed-rate mortgage interest rate was 3.68% in June 2012, compared with 3.95% in March 2012 and 4.51% in June 2011, according to Freddie Mac’s Primary Mortgage Market Survey®. The accelerated expected prepayment speeds reduced the expected lives of modified loans and thus reduced the expected expenses related to the concessions we have granted to borrowers.

In the first half of 2012, we identified misstatements in our consideration of the benefit for repurchase requests, as well as in the calculation used to discount the deferred payment obligation for certain mortgage insurers currently in run-off, when estimating the allowance for loan losses as of December 31, 2011. In the second quarter of 2012, we identified a misstatement in the calculation of the default rate used for certain bonds to estimate the reserve for guaranty losses as of December 31, 2011. To correct the above misstatements, we have recorded an out-of-period adjustment of $1.1 billion to “Benefit (provision) for credit losses” in our condensed consolidated statement of operations and comprehensive income (loss) for the first half of 2012.

We discuss our expectations regarding our future credit-related expenses and loss reserves in “Executive Summary—Summary of Our Financial Performance for the Second Quarter and First Half of 2012—Our Expectations Regarding Future Loss Reserves and Credit-Related (Income) Expenses.”

We continue to experience high volumes of loan modifications involving concessions to borrowers, which are considered troubled debt restructurings (“TDRs”). Individual impairment for a TDR is based on the restructured loan’s expected cash flows over the life of the loan, taking into account the effect of any concessions granted to the borrower, discounted at the loan's original effective interest rate. If we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure the impairment based on the fair value of the collateral, less selling cost. The allowance calculated for an individually impaired loan has generally been greater than the allowance that would be calculated under the collective reserve.

In April 2012, FHFA issued an Advisory Bulletin that could have an impact on our provision for credit losses in the future; however, we are still assessing the impact of the Advisory Bulletin. See "Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans" for additional information.

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of June 30, 2012 due to both high levels of delinquencies and an increase in TDRs. When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with its original terms. Table 13 displays the composition of our nonperforming loans, which includes our single-family and multifamily held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see "Note 3, Mortgage Loans."

Table 13: Nonperforming Single-Family and Multifamily Loans

	As of June 30, 2012	As of December 31, 2011
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$126,692	$142,998
Troubled debt restructurings on accrual status[(1)]	116,680	108,797
Total on-balance sheet nonperforming loans	243,372	251,795
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[(2)]	78	154
Total nonperforming loans	243,450	251,949
Allowance for loan losses and allowance for accrued interest receivable related to individually impaired on-balance sheet nonperforming loans	(43,591)	(47,711)
Total nonperforming loans, net of allowance	$199,859	$204,238
Accruing on-balance sheet loans past due 90 days or more[(3)]	$816	$768

	For the Six Months Ended June 30, 2012	2011
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[(4)]	$4,318	$4,555
Interest income recognized for the period[(5)]	2,981	2,990

(1) Includes HomeSaver Advance first-lien loans on accrual status.

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

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

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

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

Foreclosed Property (Income) Expense

Foreclosed property income decreased in the second quarter of 2012 compared with the second quarter of 2011 primarily due to increased estimated amounts due to us for repurchase requests recognized in the second quarter of 2011. Additionally, the second quarter of 2012 was impacted by an improvement in REO sales values and a 19% decline in our inventory of single-family REO properties compared with the second quarter of 2011.

Foreclosed property expense increased in the first half of 2012 compared with 2011 primarily due to the reasons described above.

Credit Loss Performance Metrics

Our credit-related (income) expenses should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonperforming loans in our mortgage portfolio, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 14 displays the components of our credit loss performance metrics as well as our average single-family and multifamily default rates and initial charge-off severity rates.

Table 14: Credit Loss Performance Metrics

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2012		2011		2012		2011	
	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)
	(Dollars in millions)							
Charge-offs, net of recoveries	$3,529	46.3 bp	$3,881	50.4 bp	$7,856	51.7 bp	$8,585	55.9 bp
Foreclosed property (income) expense	(70)	(0.9)	(478)	(6.2)	269	1.8	10	0.1
Credit losses including the effect of fair value losses on acquired credit-impaired loans	3,459	45.4	3,403	44.2	8,125	53.5	8,595	56.0
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense(2)	369	4.8	529	6.9	794	5.2	1,023	6.7
Credit losses and credit loss ratio	$3,828	50.2 bp	$3,932	51.1 bp	$8,919	58.7 bp	$9,618	62.7 bp
Credit losses attributable to:								
Single-family	$3,778		$3,810		$8,733		$9,414	
Multifamily	50		122		186		204	
Total	$3,828		$3,932		$8,919		$9,618	
Single-family default rate		0.41 %		0.46 %		0.82 %		0.90 %
Single-family initial charge-off severity rate (3)		30.59 %		34.47 %		32.07 %		35.29 %
		0.10 %		0.17 %		0.25 %		0.29 %

Average multifamily default rate				
Average multifamily initial charge-off severity rate (3)	30.86 %	35.82 %	38.78 %	36.23 %

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

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

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

Credit losses decreased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 primarily due to: (1) improved actual home prices and sales prices of our REO properties; and (2) lower REO acquisitions primarily due to the slow pace of foreclosures.

Our new single-family book of business accounted for approximately 4% of our single-family credit losses for the second quarter and first half of 2012. Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines. We provide more detailed credit performance information, including serious delinquency rates by geographic region and foreclosure activity, in "Risk Management—Credit Risk Management—Mortgage Credit Risk Management."

Regulatory Hypothetical Stress Test Scenario

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

Table 15 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our portfolio or underlying Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 15: Single-Family Credit Loss Sensitivity[1]

	As of June 30, 2012	December 31, 2011
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$22,124	$21,922
Less: Projected credit risk sharing proceeds	(1,818)	(1,690)
Net single-family credit loss sensitivity	$20,306	$20,232
Single-family loans in our portfolio and loans underlying Fannie Mae MBS	$2,768,918	$2,769,454
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our portfolio and Fannie Mae MBS	0.73 %	0.73 %

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 97% of our total single-family guaranty book of business as of June 30, 2012 and December 31, 2011. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

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

BUSINESS SEGMENT RESULTS

Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated

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results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our condensed consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in our 2011 Form 10-K in "Notes to Consolidated Financial Statements—Note 14, Segment Reporting." We are working on reorganizing our company by function rather than by business in order to improve our operational efficiencies and effectiveness. In future periods, we may change some of our management reporting and how we report our business segment results.

In this section, we summarize our segment results for the second quarter and first half of 2012 and 2011 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our condensed consolidated results of operations in "Consolidated Results of Operations." See "Note 10, Segment Reporting" for a reconciliation of our segment results to our condensed consolidated results.

Single-Family Business Results

Table 16 displays the financial results of our Single-Family business for the periods indicated. For a discussion on Single-Family credit risk management, including information on serious delinquency rates and loan workouts, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." The primary source of revenue for our Single-Family business is guaranty fee income. Expenses and other items that impact income or loss primarily include credit-related income (expenses), net interest loss and administrative expenses.

Table 16: Single-Family Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
	(Dollars in millions)					
Net interest loss[1]	$(215)	$(680)	$465	$(594)	$(1,578)	$984
Guaranty fee income[2][3]	1,970	1,880	90	3,881	3,751	130
Credit-related income (expenses)[4]	3,015	(5,933)	8,948	630	(17,039)	17,669
Other expenses[3][5]	(416)	(372)	(44)	(831)	(958)	127
Income (loss) before federal income taxes	4,354	(5,105)	9,459	3,086	(15,824)	18,910
Benefit for federal income taxes	—	109	(109)	—	107	(107)
Net income (loss) attributable to Fannie Mae	$4,354	$(4,996)	$9,350	$3,086	$(15,717)	$18,803
Single-family effective guaranty fee rate (in basis points)[3][6]	27.7	26.1		27.3	26.1	
Single-family average charged guaranty fee on new acquisitions (in basis points)[3][7]	40.3	31.6		34.2	28.0	
Average single-family guaranty book of business[8]	$2,848,947	$2,886,509		$2,846,754	$2,879,369	
Single-family Fannie Mae MBS issuances[9]	$175,043	$102,654		$371,798	$269,327	

(1) Primarily includes: (1) the cost to reimburse the Capital Markets group for interest income not recognized for loans in our mortgage portfolio on nonaccrual status; (2) the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status; and (3) income from cash payments received on loans that have been placed on nonaccrual status.

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

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

in other expenses. This increase in guaranty fee is also included in the single-family charged guaranty fee.

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

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

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

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

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

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

Single-Family business results reflected net income in the second quarter and first half of 2012 primarily due to credit-related income, compared with a net loss in the second quarter and first half of 2011 primarily due to credit-related expenses. In addition, net interest loss decreased and guaranty fee income increased in the second quarter and first half of 2012.

Single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income (expense) and credit losses in “Consolidated Results of Operations—Credit-Related (Income) Expenses.”

The decrease in net interest loss in the second quarter and first half of 2012 was primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our condensed consolidated balance sheet as we continued to complete a high number of loan workouts and foreclosures. In addition, as loans with stronger credit profiles become a larger portion of our single-family guaranty book of business, a smaller percentage of our loans are becoming seriously delinquent.

Guaranty fee income increased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 primarily due to an increase in the amortization of risk-based fees, reflecting the impact of higher risk-based pricing associated with our more recent acquisition vintages. Additionally, as described in “Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing” in our 2011 Form 10-K, in December 2011, Congress enacted the TCCA which, among other provisions, requires that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury, rather than retaining the incremental revenue. Effective April 1, 2012, the guaranty fee on all single-family residential mortgages delivered to Fannie Mae and Freddie Mac on or after that date for securitization was increased by 10 basis points; accordingly, the Single-Family average charged guaranty fee increased. The resulting revenue is included in guaranty fee income, and the expense is included in other expenses. Under the terms of the TCCA, the first payment of $26 million is due to Treasury in the third quarter of 2012.

Growth in our average single-family guaranty book of business was relatively flat in the second quarter and first half of 2012 compared with the second quarter and first half of 2011, despite our continued high market share because of the decline in U.S. residential mortgage debt outstanding. Our estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, remained high at 46% for the second quarter of 2012 and 48% for the first half of 2012.

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our low income housing tax credit (“LIHTC”) and equity investments. Although we are no longer making new LIHTC or equity investments, we continue to make contractually required contributions for our legacy investments. Activity from multifamily products is also reflected in the Capital Markets group results, which include net interest income related to multifamily loans and securities, gains and losses from the sale of multifamily Fannie Mae MBS and re-securitizations, and other miscellaneous income. Estimated net interest income earned on multifamily mortgage loans and multifamily Fannie Mae MBS in the Capital Markets group results was $215 million for the second quarter of 2012 compared with $222 million for the second quarter of 2011 and $419 million for the first half of 2012 compared with $452 million for the first half of 2011.

Table 17 displays the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our multifamily business are guaranty fee income and fee and other income. Expenses and other items that impact income or loss primarily include credit-related income (expenses) and administrative expenses.

Table 17: Multifamily Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
	(Dollars in millions)					
Guaranty fee income[1]	$252	$216	$36	$495	$425	$70
Fee and other income	49	57	(8)	96	115	(19)
Gains from partnership investments[2]	18	34	(16)	29	22	7
Credit-related income (expense)[3]	96	(126)	222	142	(62)	204
Other expenses[4]	(57)	(38)	(19)	(125)	(105)	(20)
Income before federal income taxes	358	143	215	637	395	242
Provision for federal income taxes	—	(56)	56	—	(61)	61
Net income attributable to Fannie Mae	$358	$87	$271	$637	$334	$303
Multifamily effective guaranty fee rate (in basis points)[5]	51.0	45.2		50.3	44.6	
Multifamily credit loss performance ratio (in basis points)[6]	10.1	25.5		18.9	21.4	
Average multifamily guaranty book of business[7]	$197,691	$191,039		$196,855	$190,493	
Multifamily new business volumes[8]	$6,738	$5,439		$13,897	$10,463	
Multifamily units financed from new business volumes	119,000	96,000		236,000	179,000	
Multifamily Fannie Mae MBS issuances[9]	$7,542	$8,129		$16,393	$16,710	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)[10]	$1,186	$1,622		$3,424	$3,022	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets Group's results)[11]	$215	$222		$419	$452	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets Group's portfolio[12]	$100,639	$112,208		$102,368	$113,272	

	As of June 30, 2012	December 31, 2011
	(Dollars in millions)	
Multifamily serious delinquency rate	0.29 %	0.59 %
Percentage of multifamily guaranty book of business with credit enhancement	90 %	90 %
Fannie Mae percentage of total multifamily mortgage debt outstanding[13]	21.4 %	21.2 %
Multifamily Fannie Mae MBS outstanding[14]	$112,944	$101,574

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

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

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

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

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

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

(7) Consists of multifamily mortgage loans held in our mortgage portfolio, multifamily mortgage loans held by consolidated trusts,

multifamily Fannie Mae MBS issued from unconsolidated trusts held by either third parties or within our retained portfolio, and other credit enhancements that we provide on multifamily mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

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

(9) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes: (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of $817 million and $2.8 billion for the three months ended June 30, 2012 and 2011, respectively, and $2.4 billion and $6.3 billion for the six months ended June 30, 2012 and 2011, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of $27 million for the three months ended June 30, 2012, and $190 million and $119 million for the six months ended June 30, 2012 and 2011, respectively. There were no conversions of adjustable-rate loans to fixed-rate loans and DMBS securities to MBS securities for the three months ended June 30, 2011.

(10) Reflects original unpaid principal balance of out-of-portfolio multifamily structured securities issuances by our Capital Markets Group.

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

(12) Based on unpaid principal balance.

(13) Includes mortgage loans and Fannie Mae MBS issued and guaranteed by the Multifamily segment. Information labeled as of June 30, 2012 is as of March 31, 2012 and is based on the Federal Reserve’s March 2012 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts have been changed to reflect revised historical data from the Federal Reserve.

(14) Includes $30.2 billion and $28.3 billion of Fannie Mae multifamily MBS held in the mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of June 30, 2012 and December 31, 2011, respectively, and $1.4 billion of bonds issued by state and local housing finance agencies as of June 30, 2012 and December 31, 2011.

Multifamily net income increased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 primarily due to an increase in guaranty fee income and credit-related income in the second quarter and first half of 2012 compared with credit-related expense in the second quarter and first half of 2011.

Guaranty fee income increased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 as we continue to acquire loans with higher guaranty fees. Our acquisitions of loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

Multifamily credit-related income in the second quarter and first half of 2012 was primarily due to reductions to our total loss reserves resulting from an improvement in national multifamily market fundamentals. In comparison, multifamily credit-related expenses in the second quarter and first half of 2011 were primarily due to credit losses, combined with a stable allowance in the second quarter of 2011, as national improvement in the multifamily market was offset by weakness in certain local markets. Multifamily credit losses, which consist of net charge-offs and foreclosed property income (expense), were $50 million for the second quarter of 2012 compared with $122 million for the second quarter of 2011, and $186 million for the first half of 2012 compared with $204 million for the first half of 2011.

Capital Markets Group Results

Table 18 displays the financial results of our Capital Markets group for the periods indicated. Following the table we discuss the Capital Markets group’s financial results and describe the Capital Markets group’s mortgage portfolio. For a discussion of the debt issued by the Capital Markets group to fund its investment activities, see “Liquidity and Capital Management.” For a discussion of the derivative instruments that the Capital Markets group uses to manage interest rate risk, see “Consolidated Balance Sheet Analysis—Derivative Instruments” and “Risk Management—Market Risk Management, Including Interest Rate Risk Management—Derivative Instruments” in our 2011 Form 10-K and “Notes to

Consolidated Financial Statements—Note 9, Derivative Instruments" in both this report and our 2011 Form 10-K. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, other-than-temporary impairments, allocated guaranty fee expense and administrative expenses.

Table 18: Capital Markets Group Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	Variance	2012	2011	Variance
	(Dollars in millions)					
Net interest income [(1)]	$3,443	$3,867	$(424)	$6,984	$7,577	$(593)
Investment gains, net[(2)]	1,458	918	540	2,465	1,788	677
Net other-than-temporary impairments	(597)	(55)	(542)	(661)	(99)	(562)
Fair value losses, net[(3)]	(2,461)	(1,507)	(954)	(2,291)	(1,289)	(1,002)
Fee and other income	186	109	77	366	184	182
Other expenses[(4)]	(556)	(560)	4	(1,086)	(1,113)	27
Income before federal income taxes	1,473	2,772	(1,299)	5,777	7,048	(1,271)
Benefit for federal income taxes	—	40	(40)	—	45	(45)
Net income attributable to Fannie Mae	$1,473	$2,812	$(1,339)	$5,777	$7,093	$(1,316)

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(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $1.3 billion and $1.5 billion for the three months ended June 30, 2012 and 2011, respectively, and $2.7 billion and $3.5 billion for the six months ended June 30, 2012 and 2011, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

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

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

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

The Capital Markets group's results reflected a decrease in net income in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 primarily due to a decrease in net interest income and an increase in net other-than-temporary impairments and fair value losses, partially offset by an increase in investment gains.

Net interest income decreased in the second quarter and first half of 2012 primarily due to a decrease in the balance of mortgage-related securities and lower interest rates on loans in our mortgage portfolio. This decrease in interest income on our interest-earning assets was partially offset by a decline in interest expense due to lower funding needs and lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt.

Our net interest income and net interest yield were higher than they would have otherwise been in the second quarter and first half of 2012 and 2011 because our debt funding needs were lower than would otherwise have been required as a result of funds we have received from Treasury to date under the senior preferred stock purchase agreement and dividends paid to Treasury are not recognized as interest expense.

We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value losses, net" and is displayed in "Table 10: Fair Value Losses, Net." If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets group's interest expense, the Capital Markets group's net interest income would have decreased by $391 million in the second quarter of 2012 compared with a decrease of $658 million in the second quarter of 2011, and would have decreased by $765 million for the first half of 2012 compared with a decrease of $1.3 billion for the first half of 2011.

The net other-than-temporary impairments recognized by the Capital Markets group during the second quarter and first half of 2012 are consistent with our condensed consolidated results of operations as described in "Consolidated Results of Operations—Other-Than-Temporary Impairment of Investment Securities." In addition, see "Note 5, Investments in Securities" for information on our other-than-temporary impairments by major security type and primary drivers for other-than-temporary impairments recorded in the second quarter and first half of 2012.

Fair value losses increased in the second quarter and first half of 2012 primarily due to an increase in derivative fair value losses. The derivatives fair value losses that are reported for the Capital Markets group are consistent with the losses reported in our condensed consolidated results of operations. We discuss our derivatives fair value losses in “Consolidated Results of Operations—Fair Value Losses, Net.”

Investment gains increased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011 due to a higher volume of securitizations.

The Capital Markets Group’s Mortgage Portfolio

The Capital Markets group’s mortgage portfolio consists of mortgage loans and mortgage-related securities that we own. Mortgage-related securities held by the Capital Markets group include Fannie Mae MBS and non-Fannie Mae mortgage-related securities. The Fannie Mae MBS that we own are maintained as securities on the Capital Markets group’s balance sheet. Mortgage-related assets held by consolidated MBS trusts are not included in the Capital Markets group’s mortgage portfolio.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 90% 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. The maximum allowable amount of mortgage assets we may own was reduced to $729 billion as of December 31, 2011 and will be reduced to $656.1 billion as of December 31, 2012. As of June 30, 2012, we owned $672.8 billion in mortgage assets, compared with $708.4 billion as of December 31, 2011.

Table 19 displays our Capital Markets group’s mortgage portfolio activity for the periods indicated.

Table 19: Capital Markets Group’s Mortgage Portfolio Activity[1]

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Mortgage loans:				
Beginning balance	$394,777	$421,856	$398,271	$427,074
Purchases	55,760	28,290	109,685	66,364
Securitizations [2]	(44,521)	(22,559)	(82,893)	(46,542)
Liquidations [3]	(19,212)	(22,170)	(38,259)	(41,479)
Mortgage loans, ending balance	386,804	405,417	386,804	405,417
Mortgage securities:				
Beginning balance	296,886	335,762	310,143	361,697
Purchases [4]	5,520	4,533	10,491	9,623
Securitizations [2]	44,521	22,559	82,893	46,542
Sales	(45,249)	(21,635)	(86,495)	(57,061)
Liquidations [3]	(15,696)	(14,835)	(31,050)	(34,417)
Mortgage securities, ending balance	285,982	326,384	285,982	326,384
Total Capital Markets mortgage portfolio	$672,786	$731,801	$672,786	$731,801

(1) Based on unpaid principal balance.

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

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

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

Table 20 displays the composition of the Capital Markets group’s mortgage portfolio as of June 30, 2012 and December 31, 2011.

Table 20: Capital Markets Group's Mortgage Portfolio Composition[1]

	As of	
	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Capital Markets group's mortgage loans:		
Single-family loans:		
Government insured or guaranteed	$41,300	$41,555
Conventional:		
Long-term, fixed-rate	245,314	245,810
Intermediate-term, fixed-rate	10,037	10,289
Adjustable-rate	20,589	23,490
Total single-family conventional	275,940	279,589
Total single-family loans	317,240	321,144
Multifamily loans:		
Government insured or guaranteed	336	362
Conventional:		
Long-term, fixed-rate	3,459	3,629
Intermediate-term, fixed-rate	52,747	58,885
Adjustable-rate	13,022	14,251
Total multifamily conventional	69,228	76,765
Total multifamily loans	69,564	77,127
Total Capital Markets group's mortgage loans	386,804	398,271
Capital Markets group's mortgage-related securities:		
Fannie Mae	201,911	220,061
Freddie Mac	12,954	14,509
Ginnie Mae	976	1,043
Alt-A private-label securities	18,392	19,670
Subprime private-label securities	15,796	16,538
CMBS	21,927	23,226
Mortgage revenue bonds	10,012	10,899
Other mortgage-related securities	4,014	4,197
Total Capital Markets group's mortgage-related securities[2]	285,982	310,143
Total Capital Markets group's mortgage portfolio	$672,786	$708,414

(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $293.1 billion and $316.5 billion as of June 30, 2012 and December 31, 2011, respectively.

The Capital Markets group's mortgage portfolio decreased as of June 30, 2012 compared with December 31, 2011 primarily due to liquidations, partially offset by purchases of delinquent loans from MBS trusts. The total unpaid principal balance of nonperforming loans in the Capital Markets group's mortgage portfolio was $233.9 billion as of June 30, 2012 and $236.2 billion as of December 31, 2011. This population includes loans that have been modified and have been classified as TDRs, as well as unmodified delinquent loans that are on nonaccrual status in our condensed consolidated financial statements.

We expect to continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other factors including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. We purchased approximately 152,600 delinquent loans with an unpaid principal balance of $25.5 billion from our single-family MBS trusts in the first half

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of 2012. As of June 30, 2012, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was $4.0 billion.

CONSOLIDATED BALANCE SHEET ANALYSIS

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

Table 21 displays a summary of our condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011.

Table 21: Summary of Condensed Consolidated Balance Sheets

	As of June 30, 2012	December 31, 2011	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$48,728	$63,539	$(14,811)
Restricted cash	55,985	50,797	5,188
Investments in securities [1]	120,629	151,780	(31,151)
Mortgage loans:			
Of Fannie Mae	370,043	380,379	(10,336)
Of consolidated trusts	2,616,574	2,590,398	26,176
Allowance for loan losses	(63,375)	(72,156)	8,781
Mortgage loans, net of allowance for loan losses	2,923,242	2,898,621	24,621
Other assets[2]	47,036	46,747	289
Total assets	$3,195,620	$3,211,484	$(15,864)
Liabilities and equity (deficit)			
Debt:			
Of Fannie Mae	$659,389	$732,444	$(73,055)
Of consolidated trusts	2,504,499	2,457,428	47,071
Other liabilities [3]	28,962	26,183	2,779
Total liabilities	3,192,850	3,216,055	(23,205)
Senior preferred stock	117,149	112,578	4,571
Other deficit [4]	(114,379)	(117,149)	2,770
Total equity (deficit)	2,770	(4,571)	7,341
Total liabilities and equity (deficit)	$3,195,620	$3,211,484	$(15,864)

(1) Includes $27.6 billion as of June 30, 2012 and $49.8 billion as of December 31, 2011 of non-mortgage-related securities that are included in our other investments portfolio, which we present in "Table 31: Cash and Other Investments Portfolio."

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

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

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

Cash and Other Investments Portfolio

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

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Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash increased as of June 30, 2012 compared with the balance as of December 31, 2011 primarily due to an increase in refinance activity, resulting in an increase in unscheduled payments received.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Unrealized and realized gains and losses on trading securities are included as a component of "Fair value losses, net" and unrealized gains and losses on available-for-sale securities are included in "Other comprehensive income (loss)" in our condensed consolidated statements of operations and comprehensive income (loss). Realized gains and losses on available-for-sale securities are recognized when securities are sold in "Investment gains, net" in our condensed consolidated statements of operations and comprehensive income (loss). 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 June 30, 2012 and December 31, 2011.

Table 22 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of the dates indicated.

Table 22: Summary of Mortgage-Related Securities at Fair Value

	As of June 30, 2012	December 31, 2011
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$20,007	$24,274
Freddie Mac	13,957	15,555
Ginnie Mae	1,111	1,189
Alt-A private-label securities	12,479	13,032
Subprime private-label securities	8,456	8,866
CMBS	23,598	24,437
Mortgage revenue bonds	10,046	10,978
Other mortgage-related securities	3,374	3,601
Total	$93,028	$101,932

Investments in Private-Label Mortgage-Related Securities

We classify private-label securities as Alt-A, subprime, multifamily or manufactured housing if the securities were labeled as such when issued. We have also invested in private-label subprime mortgage-related securities that we have resecuritized to include our guaranty ("wraps").

The continued negative impact of the current economic environment, including sustained weakness in the housing market and high unemployment, has adversely affected the performance of our Alt-A and subprime private-label securities. The unpaid principal balance of our investments in Alt-A and subprime securities was $34.2 billion as of June 30, 2012, of which $29.8 billion was rated below investment grade. Table 23 displays the unpaid principal balance and the fair value of our investments in Alt-A and subprime private-label securities along with an analysis of the cumulative losses on these investments as of June 30, 2012. We had realized actual cumulative principal shortfalls of approximately 7% as of June 30, 2012 and 6% as of December 31, 2011 of the total cumulative credit losses reported in this table and reflected in our condensed consolidated financial statements.

Table 23: Analysis of Losses on Alt-A and Subprime Private-Label Mortgage-Related Securities

	As of June 30, 2012				
	Unpaid Principal Balance	Fair Value	Total Cumulative Losses (1)	Noncredit Component (2)	Credit Component (3)
	(Dollars in millions)				
Trading securities: (4)					
Alt-A private-label securities	$2,523	$1,296	$(1,188)	$(17)	$(1,171)
Subprime private-label securities	2,516	1,226	(1,289)	(381)	(908)
Total	5,039	2,522	(2,477)	(398)	(2,079)
Available-for-sale securities: (4)					
Alt-A private-label securities	15,869	11,183	(5,330)	(1,004)	(4,326)
Subprime private-label securities	13,280	7,230	(6,089)	(1,465)	(4,624)
Total	29,149	18,413	(11,419)	(2,469)	(8,950)
Grand Total	$34,188	20,935	$(13,896)	$(2,867)	$(11,029)

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(1) Amounts reflect the difference between the fair value and unpaid principal balance net of unamortized premiums, discounts and certain other cost basis adjustments.

(2) Represents the estimated portion of the total cumulative losses that is noncredit-related. We have calculated the credit component based on the difference between the amortized cost basis of the securities and the present value of expected future cash flows. The remaining difference between the fair value and the present value of expected future cash flows is classified as noncredit-related.

(3) For securities classified as trading, amounts reflect the estimated portion of the total cumulative losses that is credit-related. For securities classified as available-for-sale, amounts reflect the estimated portion of total cumulative other-than-temporary credit impairment losses, net of accretion, that are recognized in our condensed consolidated statements of operations and comprehensive income (loss).

(4) Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio as Fannie Mae securities.

Table 24 displays the 60 days or more delinquency rates and average loss severities for the loans underlying our Alt-A and subprime private-label mortgage-related securities for the most recent remittance period of the current reporting quarter. The delinquency rates and average loss severities are based on available data provided by Intex Solutions, Inc. (“Intex”) and CoreLogic, LoanPerformance (“CoreLogic”). We also present the average credit enhancement and monoline financial guaranteed amount for these securities as of June 30, 2012. Based on the stressed condition of our non-governmental financial guarantors, we believe that all but one of these counterparties may not be able to fully meet their obligations to us in the future. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Financial Guarantors” in this report and in our 2011 Form 10-K for additional information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

Table 24: Credit Statistics of Loans Underlying Alt-A and Subprime Private-Label Mortgage-Related Securities (Including Wraps)

	As of June 30, 2012						
	Unpaid Principal Balance				Average		Monoline Financial Guaranteed
		Available-		≥ 60 Days	Loss	Average Credit	
	Trading	for-Sale	Wraps [1]	Delinquent[2][3]	Severity[3][4]	Enhancement[3][5]	Amount [6]
	(Dollars in millions)						
Private-label mortgage-related securities backed by: [7]							
Alt-A mortgage loans:							
Option ARM Alt-A mortgage loans:							
2004 and prior	$—	$460	$—	29.8 %	60.0 %	13.6 %	$—
2005	—	1,235	—	39.1	57.9	36.0	228
2006	—	1,084	—	41.2	66.3	22.5	69
2007	1,741	—	—	44.0	67.4	51.5	551
Other Alt-A mortgage loans:							
2004 and prior	—	5,667	—	10.2	50.9	12.3	12
2005	80	3,787	104	21.1	58.2	5.0	—
2006	56	3,528	—	25.1	62.3	0.3	—
2007	646	—	150	38.1	70.1	32.8	255
2008	—	108	—	27.8	67.0	24.4	—
Total Alt-A mortgage loans	2,523	15,869	254				1,115
Subprime mortgage loans:							
2004 and prior	—	1,518	922	21.8	75.6	60.5	578
2005	—	155	1,166	38.5	77.3	56.8	221
2006	—	11,025	—	44.8	77.4	15.6	52
2007	2,516	582	5,216	44.9	77.4	19.8	169
Total subprime mortgage loans	2,516	13,280	7,304				1,020
Total Alt-A and subprime mortgage loans	$5,039	$29,149	$7,558				$2,135

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(1) Represents our exposure to private-label Alt-A and subprime mortgage-related securities that have been resecuritized (or wrapped) to include our guarantee.

(2) Delinquency data provided by Intex, where available, for loans backing Alt-A and subprime private-label mortgage-related securities that we own or guarantee. The reported Intex delinquency data reflect information from June 2012 remittances for May 2012 payments. For consistency purposes, we have adjusted the Intex delinquency data, where appropriate, to include all foreclosures, all REO and loans that were in bankruptcy and 60 or more days delinquent.

(3) The average delinquency, severity and credit enhancement metrics are calculated for each loan pool associated with securities where Fannie Mae has exposure and are weighted based on the unpaid principal balance of those securities.

(4) Severity data obtained from CoreLogic, where available, for loans backing Alt-A and subprime private-label mortgage-related securities that we own or guarantee. The CoreLogic severity data reflect information from June 2012 remittances for May 2012 payments. For consistency purposes, we have adjusted the severity data, where appropriate.

(5) Average credit enhancement percentage reflects both subordination and financial guarantees. Reflects the ratio of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own or guarantee. Percentage generally calculated based on the quotient of the total unpaid principal balance of all credit enhancements in the form of subordination or financial guarantee of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own or guarantee. Beginning in March 2012, in calculating the weighted average credit enhancement percentage for bonds in the population that show negative credit enhancement in Intex due to under-collateralization, the negative credit enhancement amounts have been replaced with zero values.

(6) Reflects amount of unpaid principal balance supported by financial guarantees from monoline financial guarantors.

(7) Vintages are based on series date and not loan origination date.

Mortgage Loans

The increase in mortgage loans, net of the allowance for loan losses, in the first half of 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs. For additional information on our mortgage loans, see “Note 3, Mortgage Loans.” For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see “Business Segment Results—Capital Markets Group Results.”

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt in “Liquidity and Capital Management—Liquidity Management—Debt Funding.” Also see “Note 8, Short-Term Borrowings and Long-Term Debt” for additional information on our outstanding debt.

Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. The increase in debt of consolidated trusts in the first half of 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs.

SUPPLEMENTAL NON-GAAP INFORMATION—FAIR VALUE BALANCE SHEETS

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

Table 25 summarizes changes in our stockholders’ equity (deficit) reported in our GAAP condensed consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the six months ended June 30, 2012. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. We use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in “Note 12, Fair Value.”

Table 25: Comparative Measures—GAAP Change in Stockholders’ Equity (Deficit) and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For the Six Months Ended June 30, 2012 (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders’ deficit as of December 31, 2011[1]	$(4,624)
Total comprehensive income	8,527
Capital transactions:[2]	
Funds received from Treasury under the senior preferred stock purchase agreement	4,571
Senior preferred stock dividends	(5,750)
Capital transactions, net	(1,179)
Other	(4)
Fannie Mae stockholders’ equity as of June 30, 2012[1]	$2,720
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2011	$(127,848)
Capital transactions, net	(1,179)
Change in estimated fair value of net assets, excluding capital transactions	4,950
Increase in estimated fair value of net assets, net	3,771
Estimated fair value of net assets as of June 30, 2012	$(124,077)

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

(2) Represents capital transactions, which are reported in our condensed consolidated financial statements.

During the first half of 2012, the estimated fair value of our net assets, excluding capital transactions, increased by $5.0 billion. This increase was driven by a $16.5 billion improvement in fair value of our net assets primarily attributable to higher actual home prices experienced in the second quarter of 2012, which lowered the expected losses on our guaranty book of business and improved mark-to-market loan-to-property values, resulting in an increase in the fair value of our mortgage loans.

The increase in fair value from higher actual home prices was partially offset by a decrease in fair value of $11.5 billion primarily attributable to a change in the definition of principal market for certain of our loans as a result of the adoption of ASU 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS, during the first half of 2012.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

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

In addition, the fair value of our net assets attributable to common stockholders presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company or what we expect to draw from Treasury under the terms of our senior preferred stock purchase agreement, primarily because:

- The estimated fair value of our credit exposures significantly exceeds our projected credit losses as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation. Because we do not generally intend to have other parties assume the credit risk inherent in our book of business, and therefore would not be obligated to pay a market premium for its assumption, we do not expect the current market premium portion of our current estimate of fair value to impact future Treasury draws;
- The fair value balance sheet does not reflect amounts we expect to draw in the future to pay dividends on the senior preferred stock; and
- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

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

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We display our non-GAAP fair value balance sheets as of the dates indicated in Table 26.

Table 26: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of June 30, 2012				As of December 31, 2011			
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value		GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value	
	(Dollars in millions)							
Assets:								
Cash and cash equivalents	$80,713	$—	$80,713		$68,336	$—	$68,336	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	24,000	—	24,000		46,000	—	46,000	
Trading securities	50,935	—	50,935		74,198	—	74,198	
Available-for-sale securities	69,694	—	69,694		77,582	—	77,582	
Mortgage loans:								
Mortgage loans held for sale	455	12	467		311	14	325	
Mortgage loans held for investment, net of allowance for loan losses:								
Of Fannie Mae	317,578	(50,817)	266,761		322,825	(27,829)	294,996	
Of consolidated trusts	2,605,209	93,600 (2)	2,698,809	(3)	2,575,485	76,540 (2)	2,652,025	(3)
Total mortgage loans	2,923,242	42,795	2,966,037	(4)	2,898,621	48,725	2,947,346	(4)
Advances to lenders	7,343	(90)	7,253	(5) (6)	5,538	(118)	5,420	(5) (6)
Derivative assets at fair value	602	—	602	(5) (6)	561	—	561	(5) (6)
Guaranty assets and buy-ups, net	474	392	866	(5) (6)	503	398	901	(5) (6)
Total financial assets	3,157,003	43,097	3,200,100	(7)	3,171,339	49,005	3,220,344	(7)
Credit enhancements	451	2,094	2,545	(5) (6)	455	2,550	3,005	(5) (6)
Other assets	38,166	(253)	37,913	(5) (6)	39,690	(258)	39,432	(5) (6)
Total assets	$3,195,620	$44,938	$3,240,558		$3,211,484	$51,297	$3,262,781	
Liabilities:								
Federal funds purchased and securities sold under agreements to repurchase	$153	$—	$153		$—	$—	$—	
Short-term debt:								
Of Fannie Mae	92,906	11	92,917		146,752	30	146,782	

Of consolidated trusts	3,908		—		3,908		4,973		—		4,973	
Long-term debt:												
Of Fannie Mae	566,483	(8)	27,082		593,565		585,692	(8)	28,291		613,983	
Of consolidated trusts	2,500,591	(8)	142,607	(2)	2,643,198		2,452,455	(8)	144,202	(2)	2,596,657	
Derivative liabilities at fair value	919		—		919	(9)(10)	916		—		916	(9)(10)
Guaranty obligations	758		2,785		3,543	(9)(10)	811		3,133		3,944	(9)(10)
Total financial liabilities	3,165,718		172,485		3,338,203	(7)	3,191,599		175,656		3,367,255	(7)
Other liabilities	27,132		(750)		26,382	(9)(10)	24,456		(1,135)		23,321	(9)(10)
Total liabilities	3,192,850		171,735		3,364,585		3,216,055		174,521		3,390,576	
Equity (deficit):												
Fannie Mae stockholders’ equity (deficit):												
Senior preferred[11]	117,149		—		117,149		112,578		—		112,578	
Preferred	19,130		(18,062)		1,068		19,130		(18,163)		967	
Common	(133,559)		(108,735)		(242,294)		(136,332)		(105,061)		(241,393)	
Total Fannie Mae stockholders’ equity (deficit)/non-GAAP fair value of net assets	$2,720		$(126,797)		$(124,077)		$(4,624)		$(123,224)		$(127,848)	
Noncontrolling interest	50		—		50		53		—		53	
Total equity (deficit)	2,770		(126,797)		(124,027)		(4,571)		(123,224)		(127,795)	
Total liabilities and equity (deficit)	$3,195,620		$44,938		$3,240,558		$3,211,484		$51,297		$3,262,781	

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Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Each of the amounts listed as a "fair value adjustment" represents the difference between the carrying value included in our GAAP condensed consolidated balance sheets and our best judgment of the estimated fair value of the listed item.

(2) Fair value of consolidated loans is impacted by credit risk, which has no corresponding impact on the consolidated debt.

(3) Includes certain mortgage loans that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $5.2 billion and $3.6 billion as of June 30, 2012 and December 31, 2011, respectively.

(4) Performing loans had a fair value of $2.9 trillion and an unpaid principal balance of $2.8 trillion as of June 30, 2012 compared with a fair value of $2.8 trillion and an unpaid principal balance of $2.7 trillion as of December 31, 2011. Nonperforming loans, which for the purposes of our non-GAAP fair value balance sheets consists of loans that are delinquent by one or more payments, had a fair value of $107.3 billion and an unpaid principal balance of $203.8 billion as of June 30, 2012 compared with a fair value of $128.9 billion and an unpaid principal balance of $226.5 billion as of December 31, 2011. See "Note 12, Fair Value" for additional information on valuation techniques for performing and nonperforming loans.

(5) The following line items: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; (d) Credit enhancements; and (e) Other assets, together consist of the following assets presented in our GAAP condensed consolidated balance sheets: (a) Accrued interest receivable, net; (b) Acquired property, net; and (c) Other assets.

(6) "Other assets" include the following GAAP condensed consolidated balance sheets line items: (a) Accrued interest receivable, net and (b) Acquired property, net. The carrying value of these items in our GAAP condensed consolidated balance sheets totaled $20.1 billion and $21.4 billion as of June 30, 2012 and December 31, 2011, respectively. "Other assets" in our GAAP condensed consolidated balance sheets include the following: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; and (d) Credit enhancements. The carrying value of these items totaled $8.9 billion and $7.1 billion as of June 30, 2012 and December 31, 2011, respectively.

(7) We estimated the fair value of these financial instruments in accordance with the fair value accounting guidance as described in "Note 12, Fair Value."

(8) Includes certain long-term debt instruments that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $5.4 billion and $4.8 billion as of June 30, 2012 and December 31, 2011, respectively.

(9) The following line items: (a) Derivative liabilities at fair value; (b) Guaranty obligations; and (c) Other liabilities, consist of the following liabilities presented in our GAAP condensed consolidated balance sheets: (a) Accrued interest payable and (b) Other liabilities.

(10) "Other liabilities" include Accrued interest payable in our GAAP condensed consolidated balance sheets. The carrying value of this item in our GAAP condensed consolidated balance sheets totaled $11.9 billion and $12.6 billion as of June 30, 2012 and December 31, 2011, respectively. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the "Reserve for guaranty losses" as part of "Other liabilities" in our GAAP condensed consolidated balance sheets, it is incorporated into and reported as part of the fair value of our guaranty obligations in our non-GAAP supplemental consolidated fair value balance sheets. "Other liabilities" in our GAAP condensed consolidated balance sheets include the following: (a) Derivative liabilities at fair value and (b) Guaranty obligations. The carrying value of these items totaled $1.7 billion as of June 30, 2012 and December 31, 2011.

(11) The amount included in "estimated fair value" of the senior preferred stock is the liquidation preference, which is the same as the GAAP carrying value, and does not reflect fair value.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

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

Our treasury function resides within the Capital Markets group and is responsible for implementing our liquidity and contingency planning strategies. We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. We plan for alternative sources of liquidity that are designed to allow us to meet our cash obligations without relying upon the issuance of unsecured debt. While our liquidity contingency planning attempts to address stressed market conditions and our status under conservatorship and Treasury support arrangements, we believe that our liquidity contingency plan may be difficult or impossible to execute for a company of our size in our circumstances.

See “Liquidity and Capital Management—Liquidity Management—Liquidity Risk Management Practices and Contingency Planning” in our 2011 Form 10-K for a discussion of our liquidity contingency plans. Also see “Risk Factors” in our 2011 Form 10-K for a description of the risks associated with our liquidity risk and liquidity contingency planning.

One of our liquidity management policies requires that we maintain a minimum threshold of Treasury securities and/or cash deposits with the Federal Reserve Bank of New York. Effective August 2012, this minimum threshold represents 50% of our average projected 30-day cash needs over the previous three months. Prior to this change, this minimum threshold was 50% of the average of the previous three month-end balances of our cash and other investments portfolio.

Our liquidity position could be adversely affected by many factors, both internal and external to our business, including: actions taken by our conservator, the Federal Reserve, U.S. Treasury or other government agencies; legislation relating to us or our business; a U.S. government payment default on its debt obligations; a downgrade in the credit ratings of our senior unsecured debt or the U.S government’s debt from the major ratings organizations; a systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; public statements by key policy makers; a significant decline in our net worth; potential investor concerns about the adequacy of funding available to us under the senior preferred stock purchase agreement after 2012; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector; or elimination of our GSE status.

Debt Funding

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

We have a diversified funding base of domestic and international investors. Purchasers of our debt securities are geographically diversified and include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments, and other municipal authorities.

Although our funding needs may vary from quarter to quarter depending on market conditions, we currently expect our debt funding needs will decline in future periods as we reduce the size of our mortgage portfolio in compliance with the requirement of the senior preferred stock purchase agreement that we reduce our mortgage portfolio 10% per year until it reaches $250 billion.

Fannie Mae Debt Funding Activity

Table 27 displays the activity in debt of Fannie Mae for the periods indicated. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 27: Activity in Debt of Fannie Mae

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$54,011	$140,051	$99,605	$228,252
Weighted-average interest rate	0.13 %	0.12 %	0.12 %	0.13 %
Long-term:				
Amount	$65,481	$29,687	$124,945	$81,424
Weighted-average interest rate	1.24 %	2.38 %	1.34 %	2.22 %
Total issued:				
Amount	$119,492	$169,738	$224,550	$309,676
Weighted-average interest rate	0.74 %	0.51 %	0.80 %	0.68 %
Paid off during the period: [1]				
Short-term:				
Amount	$71,812	$125,171	$153,318	$218,202
Weighted-average interest rate	0.10 %	0.22 %	0.11 %	0.24 %
Long-term:				
Amount	$74,925	$82,721	$146,235	$149,578
Weighted-average interest rate	2.61 %	2.82 %	2.56 %	2.82 %
Total paid off:				
Amount	$146,737	$207,892	$299,553	$367,780
Weighted-average interest rate	1.38 %	1.26 %	1.31 %	1.29 %

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

Overall debt funding activity decreased in the second quarter and first half of 2012 compared with the second quarter and first half of 2011. This decrease was primarily due to a decrease in our short-term debt activity as we redeemed more short-term debt than was issued during the quarter. The decrease in short-term debt activity was partially offset by an increase in long-term debt funding activity in the second quarter and first half of 2012. As interest rates declined in the second quarter and first half of 2012, we issued long-term debt with lower interest rates to replace redemptions of long-term debt with higher interest rates. Our debt funding activity is likely to continue to decline in future periods as the size of our mortgage portfolio decreases.

We believe that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in the government's support could materially adversely affect our ability to refinance our debt as it becomes due, which could have a material adverse impact on our liquidity, financial condition and results of operations. In February 2011, Treasury and HUD released a report to Congress on reforming America's housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. For more information on GSE reform, see "Legislative and Regulatory Developments—GSE Reform" in this report and in our 2011 Form 10-K. In addition, due to our reliance on the U.S. government's support, our access to debt funding or the cost of our debt funding could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government. A

downgrade in our credit ratings could reduce demand for our debt securities and increase our borrowing costs. See our discussion of credit ratings in "Risk Factors" in our 2011 Form 10-K for information about factors that may lead to the U.S. government's long-term debt rating being lowered, and "Credit Ratings" for further discussion of our dependence on our credit ratings.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations. See "Risk Factors" in our 2011 Form 10-K for a discussion of the risks we face relating to (1) the uncertain future of our company; (2) our reliance on the issuance of debt securities to obtain funds for our operations and the relative cost to obtain these funds; and (3) our liquidity contingency plans.

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts.

As of June 30, 2012, our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt decreased to 14% from 20% as of December 31, 2011. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see "Maturity Profile of Outstanding Debt of Fannie Mae." In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, decreased to 2.19% as of June 30, 2012 from 2.42% as of December 31, 2011.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $874.8 billion in 2012. As of June 30, 2012, our aggregate indebtedness totaled $667.0 billion, which was $207.8 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 28 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 28: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of June 30, 2012				December 31, 2011			
	Maturities	Outstanding	Weighted-Average Interest Rate		Maturities	Outstanding	Weighted-Average Interest Rate	
	(Dollars in millions)							
Federal funds purchased and securities sold under agreements to repurchase [2]	—	$153	—	%	—	$—	—	%
Short-term debt:								
Fixed-rate:								
Discount notes	—	$92,424	0.14	%	—	$146,301	0.13	%
Foreign exchange discount notes	—	482	1.91		—	371	1.88	
Other [3]	—	—	—		—	80	0.04	
Total short-term debt of Fannie Mae [4]		92,906	0.15			146,752	0.13	
Debt of consolidated trusts	—	3,908	0.17		—	4,973	0.09	
Total short-term debt		$96,814	0.15	%		$151,725	0.13	%
Long-term debt:								
Senior fixed:								
Benchmark notes and bonds	2012 - 2030	$267,347	2.63	%	2012 - 2030	$277,146	2.81	%
Medium-term notes [5]	2012 - 2022	172,877	1.40		2012 - 2021	176,886	1.61	
Foreign exchange notes and bonds	2021 - 2028	669	5.27		2021 - 2028	662	5.44	
Other[6][7]	2012 - 2040	39,848	5.27		2012 - 2040	50,912	5.29	
Total senior fixed		480,741	2.41			505,606	2.64	
Senior floating:								
Medium-term notes [5]	2012 - 2019	77,026	0.31		2012 - 2016	71,855	0.32	
Other[6][7]	2020 - 2037	377	8.63		2020 - 2037	420	8.01	
Total senior floating		77,403	0.34			72,275	0.35	
Subordinated fixed-rate:								
Qualifying subordinated [8]	2012 - 2014	4,894	5.08		2012 - 2014	4,894	5.08	
Subordinated debentures	2019	3,054	9.91		2019	2,917	9.91	
Total subordinated fixed-rate		7,948	6.94			7,811	6.88	
Secured borrowings [9]	2021 - 2022	391	1.87		—	—	—	
Total long-term debt of Fannie Mae [10]		566,483	2.19			585,692	2.42	
Debt of consolidated trusts [7]	2012 - 2052	2,500,591	3.93		2012 - 2051	2,452,455	4.18	
Total long-term debt		$3,067,074	3.61	%		$3,038,147	3.84	%
Outstanding callable debt of Fannie Mae [11]		$174,028	1.76	%		$187,937	2.17	%

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(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts include fair value gains and losses associated with debt that we elected to carry at fair value. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments, and debt of consolidated trusts, totaled $666.6 billion and $741.6 billion as of June 30, 2012 and December 31, 2011, respectively.

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

(3) Includes foreign exchange discount notes denominated in U.S. dollars.

(4) Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Reported amounts include a net discount and other cost basis adjustments of $30 million and $53 million as of June 30, 2012 and December 31, 2011, respectively.

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

(6) Includes long-term debt that is not included in other debt categories.

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

(8) Consists of subordinated debt with an interest deferral feature.

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

(10) Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year. Reported amounts include the current portion of long-term debt that is due within one year, which totaled $137.8 billion and $134.3 billion as of June 30, 2012 and December 31, 2011, respectively. Reported amounts also include unamortized discounts, premiums and other cost basis adjustments of $7.5 billion and $9.2 billion as of June 30, 2012 and December 31, 2011, respectively. The unpaid principal balance of long-term debt of Fannie Mae, which excludes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments and amounts related to debt of consolidated trusts, totaled $573.9 billion and $594.8 billion as of June 30, 2012 and December 31, 2011, respectively.

(11) Consists of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option or the option of the investor at any time on or after a specified date. Includes the unpaid principal balance, and excludes unamortized discounts, premiums and other cost basis adjustments.

Maturity Profile of Outstanding Debt of Fannie Mae

Table 29 displays the maturity profile, as of June 30, 2012, of our outstanding debt maturing within one year, by month, including amounts we have announced for early redemption. Our outstanding debt maturing within one year, including the current portion of our long-term debt, decreased as a percentage of our total outstanding debt, excluding debt of consolidated trusts, to 35% as of June 30, 2012, compared with 38% as of December 31, 2011. The weighted-average maturity of our outstanding debt that is maturing within one year was 123 days as of June 30, 2012, compared with 158 days as of December 31, 2011.

Table 29: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[1]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments of $73 million as of June 30, 2012. Excludes debt of consolidated trusts maturing within one year of $6.5 billion as of June 30, 2012.

Table 30 displays the maturity profile, as of June 30, 2012, of the portion of our long-term debt that matures in more than one year, on a quarterly basis for one year and on an annual basis thereafter, excluding amounts we have announced for early redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 56 months as of June 30, 2012 and approximately 59 months as of December 31, 2011.

Table 30: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[1]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments of $7.5 billion as of June 30, 2012. Excludes debt of consolidated trusts of $2.5 trillion as of June 30, 2012.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities.

Cash and Other Investments Portfolio

Table 31 displays information on the composition of our cash and other investments portfolio as of the dates indicated.

Table 31: Cash and Other Investments Portfolio

	As of June 30, 2012	December 31, 2011
	(Dollars in millions)	
Cash and cash equivalents	$24,728	$ 17,539
Federal funds sold and securities purchased under agreements to resell or similar arrangements	24,000	46,000
Non-mortgage-related securities:		
U.S. Treasury securities [1]	27,064	47,737
Asset-backed securities [2]	537	2,111
Total non-mortgage-related securities	27,601	49,848
Total cash and other investments	$76,329	$ 113,387

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(1) Excludes $7.7 billion and $600 million of U.S. Treasury securities which are a component of cash equivalents as of June 30, 2012 and December 31, 2011, respectively, as these securities had a maturity at the date of acquisition of three months or less.

(2) Includes securities primarily backed by credit cards loans and student loans.

Our cash and other investments portfolio decreased from December 31, 2011 to June 30, 2012. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Issuers of Investments Held in our Cash and Other Investments Portfolio” for additional information on the risks associated with the assets in our cash and other investments portfolio.

Credit Ratings

Our credit ratings from the major credit ratings organizations, as well as the credit ratings of the U.S. government, are primary factors that could affect our ability to access the capital markets and our cost of funds. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings Limited ("Fitch") have all indicated that, if they were to lower the sovereign credit ratings on the U.S, they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities. We cannot predict whether one or more of these ratings agencies will lower our debt ratings in the future. See "Risk Factors" in our 2011 Form 10-K for a discussion of the possibility of further downgrades and the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts and other borrowing arrangements.

Table 32 displays the credit ratings issued by the three major credit rating agencies as of August 1, 2012.

Table 32: Fannie Mae Credit Ratings

	As of August 1, 2012		
	S&P	Moody's	Fitch
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Qualifying subordinated debt	A	Aa2	AA-
Preferred stock	C	Ca	C/RR6
Bank financial strength rating	—	E+	—
Outlook	Negative	Negative	Negative
	(for Long Term Senior Debt and Qualifying Subordinated Debt)	(for Long Term Senior Debt and Qualifying Subordinated Debt)	(for AAA rated Long Term Issuer Default Rating)

Cash Flows

Six Months Ended June 30, 2012. Cash and cash equivalents increased from December 31, 2011 by $7.2 billion to $24.7 billion as of June 30, 2012. Net cash generated from investing activities totaled $277.0 billion, resulting primarily from proceeds received from repayments of loans held for investment. Net cash from operating activities totaled $24.1 billion. These net cash inflows were partially offset by net cash used in financing activities of $293.9 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt.

Six Months Ended June 30, 2011. Cash and cash equivalents of $14.3 billion as of June 30, 2011 decreased by $3.0 billion from December 31, 2010. Net cash generated from investing activities totaled $236.2 billion, resulting primarily from proceeds received from repayments of loans held for investment. These net cash inflows were offset by net cash outflows used in operating activities of $2.1 billion and net cash used in financing activities of $237.1 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt as well as proceeds received from Treasury under the senior preferred stock purchase agreement.

Capital Management

Regulatory Capital

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA and FHFA monitors our capital levels. The deficit of core capital over statutory minimum capital was $145.1 billion as of June 30, 2012 and $148.4 billion as of December 31, 2011.

Senior Preferred Stock Purchase Agreement

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

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the

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senior preferred stock purchase agreement as of June 30, 2012. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remains at $117.1 billion. While we had a positive net worth as of June 30, 2012, in some future periods we expect to have a net worth deficit and therefore will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement.

The senior preferred stock purchase agreement provides that the $200 billion maximum amount of the commitment from Treasury will increase as necessary to accommodate any net worth deficiencies attributable to periods during 2010, 2011 and 2012. If we do not have a positive net worth as of December 31, 2012, then the amount of funding available under the senior preferred stock purchase agreement after 2012 will be $124.8 billion ($200 billion less $75.2 billion in cumulative draws for net worth deficiencies through December 31, 2009).

In the event we have a positive net worth as of December 31, 2012, then the amount of funding available after 2012 under the senior preferred stock purchase agreement will depend on the size of that positive net worth relative to the cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, as follows:

- If our positive net worth as of December 31, 2012 is less than the cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, then the amount of available funding will be $124.8 billion less our positive net worth as of December 31, 2012.
- If our positive net worth as of December 31, 2012 is greater than the cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, then the amount of available funding will be $124.8 billion less the cumulative draws attributable to periods during 2010, 2011 and 2012.

As of August 8, 2012, the amount of the quarterly commitment fee payable by us to Treasury under the senior preferred stock purchase agreement had not been established; however, Treasury has waived the quarterly commitment fee under the senior preferred stock purchase agreement for each quarter of 2011 and the first, second and third quarters of 2012 due to the continued fragility of the U.S. mortgage market and Treasury's belief that imposing the commitment fee would not generate increased compensation for taxpayers. Treasury stated that it will reevaluate the situation during the next calendar quarter to determine whether the quarterly commitment fee should then be set.

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) accrued 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, 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. The limited circumstances under which Treasury's funding commitment will terminate are described in "Business— Conservatorship and Treasury Agreements" in our 2011 Form 10-K.

Dividends

Our second quarter dividend of $2.9 billion was declared by the conservator and paid by us on June 29, 2012. The annualized dividend on the senior preferred stock remains at $11.7 billion based on the 10% dividend rate. The level of dividends on the senior preferred stock will increase in future periods if, as we expect, the conservator requests additional funds on our behalf from Treasury under the senior preferred stock purchase agreement.

OFF-BALANCE SHEET ARRANGEMENTS

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $58.7 billion as of June 30, 2012 and $62.0 billion as of December 31, 2011.

We also provide assistance to housing finance agencies under the temporary credit and liquidity facilities programs in which Treasury has purchased participation interests. For a description of these programs, see "MD&A—Off-Balance

Sheet Arrangements—Treasury Housing Finance Agency Initiative" in our 2011 Form 10-K.

RISK MANAGEMENT

Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We seek to actively monitor and manage these risks by using an established risk management framework. Our risk management framework is intended to provide the basis for the principles that govern our risk management activities. In addition to these financial risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in "Legislative and Regulatory Developments—GSE Reform" in this report and in "Risk Factors" in our 2011 Form 10-K. We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including model, legal and reputational risks that may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the financial risks we face and how we manage credit risk, market risk and operational risk, see "MD&A—Risk Management" in our 2011 Form 10-K and "Risk Factors" in our 2011 Form 10-K and in this report.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us, including seller/servicers who are obligated to repurchase loans from us or reimburse us for losses in certain circumstances.

Mortgage Credit Risk Management

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

Mortgage Credit Book of Business

Table 33 displays the composition of our mortgage credit book of business as of the dates indicated. Our total single-family mortgage credit book of business accounted for 93% of our total mortgage credit book of business as of June 30, 2012 and December 31, 2011.

Table 33: Composition of Mortgage Credit Book of Business[1]

	As of June 30, 2012			As of December 31, 2011		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[2]	$2,799,298	$180,809	$2,980,107	$2,798,633	$176,898	$2,975,531
Unconsolidated Fannie Mae MBS, held by third parties[3]	16,544	1,598	18,142	17,910	1,702	19,612
Other credit guarantees[4]	24,405	16,120	40,525	25,824	16,582	42,406
Guaranty book of business	$2,840,247	$198,527	$3,038,774	$2,842,367	$195,182	$3,037,549
Agency mortgage-related securities[5]	13,898	32	13,930	15,522	33	15,555
Other mortgage-related securities[6]	40,339	29,802	70,141	43,019	31,511	74,530
Mortgage credit book of business	$2,894,484	$228,361	$3,122,845	$2,900,908	$226,726	$3,127,634
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[7]	$2,769,416	$196,307	$2,965,723	$2,769,919	$192,797	$2,962,716
Government Guaranty Book of Business[8]	$70,831	$2,220	$73,051	$72,448	$2,385	$74,833

(1) Based on unpaid principal balance.

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

(3) Reflects unpaid principal balance of unconsolidated Fannie Mae MBS, held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

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

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

(6) Consists primarily of mortgage revenue bonds, Alt-A and subprime private-label securities and CMBS.

(7) 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.

(8) 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.

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of each of our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of June 30, 2012 and December 31, 2011. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See "Risk Factors" in our 2011 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These strategies may increase our expenses and may not be effective in reducing our credit-related expenses or credit losses. We provide information on our credit-related expenses and credit losses in "Consolidated Results of

Operations—Credit-Related Income (Expenses).”

In evaluating our single-family mortgage credit risk, we closely monitor changes in housing and economic conditions and the impact of those changes on the credit risk profile of our single-family mortgage credit book of business. We regularly review and provide updates to our underwriting standards and eligibility guidelines that take into consideration changing market conditions. The credit risk profile of our single-family mortgage credit book of business is influenced by, among other things, the credit profile of the borrower, features of the loan, loan product type, the type of property securing the loan and the housing market and general economy. We focus more on loans that we believe pose a higher risk of default, which typically have been loans associated with higher mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, such as Alt-A loans. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment.

Because we believe we have limited credit exposure on our government loans, 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.

Table 34 displays our single-family conventional business volumes and our single-family conventional guaranty book of business for the periods indicated, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4]	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		As of	
	2012	2011	2012	2011	June 30, 2012	December 31, 2011
Original LTV ratio:[5]						
<= 60%	24 %	28 %	27 %	29 %	24 %	24 %
60.01% to 70%	14	14	15	15	15	16
70.01% to 80%	34	37	35	37	40	40
80.01% to 90%[6]	9	10	9	9	10	10
90.01% to 100%[6]	9	8	8	7	9	9
Greater than 100%[6]	10	3	6	3	2	1
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	76 %	71 %	73 %	69 %	72 %	71 %
Average loan amount	$210,493	$194,598	$212,467	$206,313	$156,777	$156,194
Estimated mark-to-market LTV ratio:[7]						
<= 60%					27 %	26 %
60.01% to 70%					13	12
70.01% to 80%					21	18
80.01% to 90%					14	16
90.01% to 100%					9	10
Greater than 100%					16	18
Total					100 %	100 %
Weighted average					77 %	79 %
Product type:						
Fixed-rate:[8]						
Long-term	74 %	70 %	73 %	69 %	72 %	73 %
Intermediate-term	22	22	23	24	16	15
Interest-only	*	*	*	*	1	1
Total fixed-rate	96	92	96	93	89	89
Adjustable-rate:						
Interest-only	*	1	*	1	3	3
Other ARMs	4	7	4	6	8	8
Total adjustable-rate	4	8	4	7	11	11
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	97 %	97 %	98 %	97 %	97 %	97 %
2-4 units	3	3	2	3	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %
Property type:						
Single-family homes	91 %	90 %	91 %	90 %	91 %	91 %
Condo/Co-op	9	10	9	10	9	9
Total	100 %	100 %	100 %	100 %	100 %	100 %

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	Percent of Single-Family Conventional Business Volume[2] For the Three Months Ended June 30,		For the Six Months Ended June 30,		Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	2012	2011	2012	2011	June 30, 2012	December 31, 2011
Occupancy type:						
Primary residence	89 %	85 %	89 %	88 %	89 %	89 %
Second/vacation home	4	6	4	5	5	5
Investor	7	9	7	7	6	6
Total	100 %	100 %	100 %	100 %	100 %	100 %
FICO credit score at origination:						
< 620	1 %	1 %	1 %	* %	3 %	3 %
620 to < 660	2	3	2	2	6	7
660 to < 700	8	9	7	8	13	13
700 to < 740	16	18	15	17	20	20
>= 740	73	69	75	73	58	57
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	760	756	762	760	740	738
Loan purpose:						
Purchase	22 %	31 %	20 %	23 %	29 %	31 %
Cash-out refinance	15	16	15	18	26	27
Other refinance	63	53	65	59	45	42
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[9]						
Midwest	16 %	14 %	16 %	15 %	15 %	15 %
Northeast	18	20	18	20	19	19
Southeast	19	20	19	20	23	24
Southwest	15	16	15	15	16	15
West	32	30	32	30	27	27
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
< = 2001					2 %	2 %
2002					2	2
2003					7	9
2004					5	5
2005					6	7
2006					6	7
2007					8	10
2008					6	7
2009					14	17
2010					16	18
2011					17	16
2012					11	—
Total					100 %	100 %

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

(1) We reflect second lien mortgage loans in the original LTV ratio calculation only when we own both the first and second lien mortgage loans or we own only the second lien mortgage loan. Second lien mortgage loans represented less than 0.5% of our single-family conventional guaranty book of business as of June 30, 2012 and December 31, 2011. Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

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

(2) Single-family business volume refers to both single-family mortgage loans we purchase for our mortgage portfolio and single-family mortgage loans we guarantee.

(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 that represented 5% of our single-family conventional guaranty book of business as of June 30, 2012 and December 31, 2011. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" and "Risk Management—Credit Risk Management—Single Family Mortgage Credit Risk Management—Credit Profile Summary" in our 2011 Form 10-K for additional information on loan limits.

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

(7) 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.

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

(9) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast includes 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.

Credit Profile Summary

The single-family loans we purchased or guaranteed in the first half of 2012 have a strong credit profile with a weighted average original LTV ratio of 73%, a weighted average FICO credit score of 762, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans.

The credit profile of our future acquisitions will depend on many factors, including our future pricing and eligibility standards and those of mortgage insurers and FHA, the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under Refi Plus and HARP. 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.

As a result of low mortgage rates in recent periods, the percentage of acquisitions that are refinanced loans remains elevated. Refinanced loans include acquisitions under our Refi Plus initiative. Under our Refi Plus initiative, which offers expanded refinance opportunities for eligible Fannie Mae borrowers and includes but is not limited to HARP, we allow our borrowers who have mortgage loans with current LTV ratios above 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Approximately 23% of our total single-family conventional business volume for the first half of 2012 consisted of loans with LTV ratios greater than 80% at the time of acquisition, compared with 19% for the first half of 2011. Refi Plus constituted approximately 24% of our total single-family acquisitions in the first half of 2012 and all of 2011. HARP loans constituted approximately 13% of our total single-family acquisitions in the first half of 2012, compared with approximately 9% of total single-family acquisitions in all of 2011.

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 loans we acquire under Refi Plus and HARP essentially replaces the credit risk that we already held prior to the refinancing. Loans we acquire under Refi Plus and HARP may not perform as well as 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 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). Due to the increase in the volume of HARP loans with higher LTV ratios, the weighted average LTV ratio at origination for our acquisitions in the first half of 2012 was higher than for our acquisitions in the first half of 2011. The average original LTV ratio of single-family loans we acquired in the first half of 2012, excluding HARP loans, was 68%, compared with 105% for HARP loans. In addition, as a result of recently implemented changes to HARP, we expect that if interest rates remain low we will continue to acquire a high volume of refinancings under HARP. In particular, we expect to acquire many refinancings with LTV ratios greater than 125%, because borrowers were unable to refinance loans with LTV ratios greater than 125% in large numbers until changes to HARP were fully implemented in the second quarter of 2012. Approximately 4% of our total single-family conventional business volume for the second quarter of 2012 consisted of refinanced loans with LTV ratios greater than 125% at the time of acquisition.

We expect the elevated volume of HARP refinancings will decrease when interest rates rise sufficiently or when there is no longer a large population of borrowers with loans that have high LTV ratios who would benefit from refinancing.

Table 35 displays the serious delinquency rates and current mark-to-market LTV ratios as of June 30, 2012 of single-family loans we acquired under HARP and Refi Plus, compared with the other single-family loans we acquired since the beginning of 2009.

Table 35: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus

	As of June 30, 2012					
	Percentage of New Book		Current Mark-to-Market LTV Ratio > 100%		Serious Delinquency Rate	
HARP[1]	10	%	34	%	1.06	%
Other Refi Plus[2]	13		4		0.34	
Total Refi Plus	23		16		0.60	
Non-Refi Plus[3]	77		1		0.25	
Total new book of business[4]	100	%	5	%	0.33	%

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(1) HARP is targeted at borrowers who have demonstrated an acceptable payment history on their mortgage loans but may have been unable to refinance due to a decline in home prices or the unavailability of mortgage insurance. HARP loans, which have LTV ratios at origination in excess of 80%, must be secured by the borrower's primary residence.

(2) Other Refi Plus includes loans with LTV ratios at origination greater than 80% that do not meet the criteria for HARP because they are not secured by the borrower's primary residence, as well as loans that have LTV ratios at origination of less than 80%.

(3) Includes primarily other refinancings and home purchase mortgages.

(4) Refers to single-family mortgage loans we have acquired since the beginning of 2009.

In addition to the increase in refinancings under Refi Plus and HARP, our acquisitions of home purchase mortgages with LTV ratios greater than 80% increased in the first half of 2012 compared with the first half of 2011 because: (1) most mortgage insurance companies lowered their premiums in 2011 for loans with higher credit scores; and (2) in April 2011, FHA implemented a price increase in its annual mortgage insurance premium. Both price changes improved the economics of obtaining private mortgage insurance as compared to purchasing FHA insurance and drove an increase in our market share for these loans.

The prolonged and severe decline in home prices over the past several years has resulted in the overall estimated weighted average mark-to-market LTV ratio of our single-family conventional guaranty book of business remaining high at 77% as of June 30, 2012, and 79% as of December 31, 2011. The portion of our single-family conventional guaranty book of business with an estimated mark-to-market LTV ratio greater than 100% was 16% as of June 30, 2012, and 18% as of December 31, 2011. If home prices decline further, more loans may have mark-to-market LTV ratios greater than 100%, which increases the risk of delinquency and default.

Alt-A and Subprime Loans

We classify certain loans as subprime or Alt-A so that we can discuss our exposure to subprime and Alt-A loans in this Form 10-Q and elsewhere. However, there is no universally accepted definition of subprime or Alt-A loans. Our single-family conventional guaranty book of business includes loans with some features that are similar to Alt-A loans or subprime loans that we have not classified as Alt-A or subprime because they do not meet our classification criteria.

We do not rely solely on our classifications of loans as Alt-A or subprime to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, please see "Note 3, Mortgage Loans," and "Note 6, Financial Guarantees."

Our exposure to Alt-A and subprime loans included in our single-family conventional guaranty book of business, based on the classification criteria described in this section, does not include (1) our investments in private-label mortgage-related securities backed by Alt-A and subprime loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. See "Consolidated Balance Sheet Analysis—Investments in

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Mortgage-Related Securities—Investments in Private-Label Mortgage-Related Securities" for a discussion of our exposure to private-label mortgage-related securities backed by Alt-A and subprime loans. As a result of our decision to discontinue the purchase of newly originated Alt-A loans, except for those that represent the refinancing of an existing Fannie Mae loan, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A to continue to decrease over time. We are also not currently acquiring newly originated subprime loans, although we are acquiring refinancings of existing Fannie Mae subprime loans in connection with our Refi Plus initiative. Unlike the loans they replace, these refinancings are not included in our reported subprime loans because they do not meet our classification criteria for subprime loans. We have classified a mortgage loan as Alt-A if and only if the lender that delivered the loan to us classified the loan as Alt-A, based on documentation or other features. We have classified a mortgage loan as subprime if and only if the loan was originated by a lender specializing in subprime business or by a subprime division of a large lender; however, we exclude loans originated by these lenders from the subprime classification if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter system. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $169.0 billion as of June 30, 2012, represented approximately 6.1% of our single-family conventional guaranty book of business. The unpaid principal balance of subprime loans included in our single-family conventional guaranty book of business of $5.4 billion as of June 30, 2012, represented approximately 0.2% of our single-family conventional guaranty book of business.

Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a borrower does not make required payments, or is in jeopardy of not making payments, we work with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan workouts reflect our various types of home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure. When appropriate, we seek to move to foreclosure expeditiously.

Loan modifications involve changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance. Additionally, we currently offer up to twelve months of forbearance for those homeowners who are unemployed as an additional tool to help homeowners avoid foreclosure. 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. Since the cost of foreclosure can be significant to both the borrower and Fannie Mae, to avoid foreclosure and satisfy the first-lien mortgage obligation, our servicers work with a borrower to sell their home prior to foreclosure in a short sale or accept a deed-in-lieu of foreclosure whereby the borrower voluntarily signs over the title to their property to the servicer. These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a foreclosure.

In the following section, we present statistics on our problem loans, describe specific efforts undertaken to manage these loans and prevent foreclosures and provide metrics regarding the performance of our loan workout activities. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and 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.

Problem Loan Statistics

The following table displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) as of the dates indicated.

Table 36: Delinquency Status of Single-Family Conventional Loans

	As of June 30, 2012	December 31, 2011	June 30, 2011
Delinquency status:			
30 to 59 days delinquent	1.94 %	2.17 %	2.13 %
60 to 89 days delinquent	0.62	0.74	0.72
Seriously delinquent	3.53	3.91	4.08
Percentage of seriously delinquent loans that have been delinquent for more than 180 days	75 %	70 %	73 %

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009, as these loans are now 59% of our single-family guaranty book of business, resulting in a smaller percentage of our loans becoming seriously delinquent.

Although our single-family serious delinquency rate has decreased significantly since the first quarter of 2010, our serious delinquency rate and the period of time that loans remain seriously delinquent have been negatively affected in recent periods by the increase in the average number of days it is taking to complete a foreclosure. Continuing issues in the servicer foreclosure process and changing legislative, regulatory and judicial requirements have lengthened the time it takes to foreclose on a mortgage loan in many states. In addition, servicers and states are dealing with the backlog of foreclosures resulting from these delays and from the elevated level of foreclosures resulting from the housing market downturn. Longer foreclosure timelines result in these loans remaining in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last year than it would have if the pace of foreclosures had been faster. We believe the changes in the foreclosure environment will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related expenses (income). We expect serious delinquency rates will continue to be affected in the future by home price changes, changes in other macroeconomic conditions, the length of the foreclosure process and the volume of loan modifications. We expect the number of our single-family loans that are seriously delinquent to remain well above pre-2008 levels for years.

Table 37 displays a comparison, by geographic region and by loans with and without credit enhancement, of the serious delinquency rates as of the dates indicated for single-family conventional loans in our single-family guaranty book of business. Serious delinquency rates vary by geographic region due to many factors including regional home prices, unemployment, economic conditions and state foreclosure timelines.

Table 37: Single-Family Serious Delinquency Rates

	As of June 30, 2012		December 31, 2011		June 30, 2011	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Single-family conventional delinquency rates by geographic region:(1)						
Midwest	15 %	3.20 %	15 %	3.73 %	15 %	3.89 %
Northeast	19	4.29	19	4.43	19	4.31
Southeast	23	5.14	24	5.68	24	5.92
Southwest	16	1.97	15	2.30	15	2.43
West	27	2.61	27	2.87	27	3.25
Total single-family conventional loans	100 %	3.53 %	100 %	3.91 %	100 %	4.08 %
Single-family conventional loans:						
Credit enhanced	14 %	7.88 %	14 %	9.10 %	14 %	9.72 %

Non-credit enhanced	86		2.86		86		3.07		86		3.14	
Total single-family conventional loans	100	%	3.53	%	100	%	3.91	%	100	%	4.08	%

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(1) See footnote 9 to "Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

While loans across our single-family guaranty book of business have been affected by the weak market conditions, loans in certain states, certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTVs, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a disproportionate share of our credit losses. California, Florida, Arizona, Nevada and some states in the Midwest have experienced more significant declines in home prices coupled with unemployment rates that remain high.

Table 38 displays the serious delinquency rates and other financial information for our single-family conventional loans with some of these higher-risk characteristics as of the dates indicated. The reported categories are not mutually exclusive.

Table 38: Single-Family Conventional Serious Delinquency Rate Concentration Analysis

	As of June 30, 2012				December 31, 2011				June 30, 2011			
	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)
	(Dollars in millions)											
States:												
Arizona	$65,400	3 %	2.82 %	96 %	$66,875	2 %	3.65 %	109 %	$68,634	2 %	4.19 %	109 %
California	523,381	19	2.07	77	516,608	19	2.46	81	516,760	19	2.94	78
Florida	169,684	6	11.00	101	175,344	6	11.80	108	180,681	6	12.19	107
Nevada	27,803	1	7.15	131	28,766	1	7.42	138	29,763	1	7.88	134
Select Midwest states (2)	280,671	10	3.83	82	284,060	10	4.39	84	290,612	10	4.54	82
All other states	1,694,193	61	2.93	72	1,689,846	62	3.18	73	1,707,490	62	3.24	72
Product type:												
Alt-A	169,001	6	11.83	99	182,236	7	12.43	101	195,284	7	13.04	100
Subprime	5,395	*	21.02	109	5,791	*	23.18	111	6,152	*	25.86	109
Vintages:												
2005	165,850	6	7.34	93	190,521	7	7.27	95	212,417	8	7.06	93
2006	163,410	6	11.66	109	186,835	7	11.81	111	207,140	7	11.90	109
2007	233,666	8	12.38	110	269,012	10	12.62	112	298,856	11	12.75	109
2008	158,277	6	5.98	91	192,713	7	5.64	92	224,527	8	5.17	88
All other vintages	2,039,929	74	1.44	68	1,922,418	69	1.59	69	1,851,000	66	1.59	66
Estimated mark-to-market LTV ratio:												
Greater than 100%(1)	433,906	16	13.44	130	493,762	18	13.76	131	472,549	17	15.13	132
Select combined risk characteristics:												
Original LTV ratio > 90% and FICO score <	18,631	1	15.83	113	18,992	1	18.67	115	20,063	1	19.36	113

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*Percentage is less than 0.5%.

(1) Second lien mortgage loans held by third parties are not included in the calculation of the estimated mark-to-market LTV ratios.

(2) Consists of Illinois, Indiana, Michigan and Ohio.

Loan Workout Metrics

Table 39 displays statistics on our single-family loan workouts that were completed, by type, for the periods indicated. These statistics include loan modifications but do not include trial modifications or repayment and forbearance plans that have been initiated but not completed.

Table 39: Statistics on Single-Family Loan Workouts

	For the Six Months Ended June 30,			
	2012		2011	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)			
Home retention strategies:				
Modifications	$15,485	82,003	$20,909	101,379
Repayment plans and forbearances completed [1]	2,110	14,758	2,598	18,599
	17,595	96,761	23,507	119,978
Foreclosure alternatives:				
Short sales	8,366	38,717	7,587	34,047
Deeds-in-lieu of foreclosure	1,282	7,509	768	4,249
	9,648	46,226	8,355	38,296
Total loan workouts	$27,243	142,987	$31,862	158,274
Loan workouts as a percentage of single-family guaranty book of business[2]	1.92 %	1.62 %	2.22 %	1.77 %

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

The volume of home retention solutions completed in the first half of 2012 decreased compared with the first half of 2011, primarily due to a decline in the number of delinquent loans in the first half of 2012, compared with the first half of 2011.

During the first half of 2012, we initiated approximately 89,100 trial modifications, including Home Affordable Modification Program ("HAMP") and non-HAMP, compared with approximately 104,000 trial modifications during the first half of 2011. We also initiated other types of workouts, such as repayment plans and forbearances. It is difficult to predict how many of these trial modifications and initiated plans will be completed.

HAMP guidance directs servicers either to cancel or to convert trial modifications after three or four monthly payments, depending on the borrower's circumstances. As of June 30, 2012, 55% of our HAMP trial modifications had been converted to permanent HAMP modifications since the inception of the program. The conversion rate for HAMP modifications since June 1, 2010, when servicers were required to perform a full verification of a borrower's eligibility prior to offering a HAMP trial modification, was 86% as of June 30, 2012. The average length of a trial period for HAMP modifications initiated after June 1, 2010 was four months.

In addition to our home retention solutions, we continue to focus on alternatives to foreclosure for borrowers who are unable to retain their homes. The number of foreclosure alternatives we agreed to during the first half of 2012 remained high as these are favorable solutions for a large number of borrowers. We expect the volume of our home retention solutions and foreclosure alternatives to remain high throughout the remainder of 2012.

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Our approach to workouts continues to focus on the large number of borrowers facing financial hardships. Accordingly, the vast majority of loan modifications we have completed since 2009 have been concentrated on deferring or lowering the borrowers' monthly mortgage payments to allow borrowers to work through their hardships.

Table 40 displays the percentage of our loan modifications completed during the first half of 2011, 2010 and the second half of 2009 that were current or paid off one year after modification, as well as the percentage of our loan modifications completed during the first half of 2010 and the second half of 2009 that were current or paid off two years after modification.

Table 40: Percentage of Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
One Year Post-Modification								
HAMP Modifications	78 %	77 %	74 %	74 %	74 %	76 %	73 %	71 %
Non-HAMP Modifications	69	69	67	67	65	55	50	39
Total	75	74	69	70	70	65	58	42
Two Years Post-Modification								
HAMP Modifications					68 %	70 %	67 %	64 %
Non-HAMP Modifications					61	52	48	37
Total					65	60	55	39

(1) Excludes loans that were classified as subprime ARMs that were modified into fixed rate mortgages. Modifications included permanent modifications, but do not reflect loans currently in trial modifications.

We began changing the structure of our non-HAMP modifications in 2010 to lower borrowers' monthly mortgage payments to a greater extent, which improved the performance of our non-HAMP modifications overall. In addition, because post-modification performance was greater for our HAMP modifications than for our non-HAMP modifications, we began in September 2010 to include trial periods for our non-HAMP modifications.

There is significant uncertainty regarding the ultimate long term success of our current modification efforts. We believe the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices. Modifications, even those with reduced monthly payments, may also not be sufficient to help borrowers with second liens and other significant non-mortgage debt obligations. FHFA, other agencies of the U.S. government or Congress may ask us to undertake new initiatives to support the housing and mortgage markets should our current modification efforts ultimately not perform in a manner that results in the stabilization of these markets. See "Risk Factors" in our 2011 Form 10-K for a discussion of efforts we may be required or asked to undertake and their potential effect on us.

REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 41 displays our foreclosure activity, by region, for the periods indicated. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 41: Single-Family Foreclosed Properties

	For the Six Months Ended June 30,	
	2012	2011
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	118,528	162,489
Acquisitions by geographic area:[2]		
Midwest	27,323	21,769
Northeast	6,113	4,786
Southeast	30,138	23,549
Southwest	15,329	26,950
West	12,580	30,192
Total properties acquired through foreclosure [1]	91,483	107,246
Dispositions of REO	(100,745)	(134,016)
End of period inventory of single-family foreclosed properties (REO)[1]	109,266	135,719
Carrying value of single-family foreclosed properties (dollars in millions)[3]	$9,421	$12,480
Single-family foreclosure rate[4]	1.04 %	1.20 %

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(1) Includes held for use properties, which are reported in our condensed consolidated balance sheets as a component of "Other assets" and acquisitions through deeds-in-lieu of foreclosure.
(2) See footnote 9 to "Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.
(3) Excludes foreclosed property claims receivables, which are reported in our condensed consolidated balance sheets as a component of "Acquired property, net."
(4) Estimated based on the annualized total number of properties acquired through foreclosure or deeds-in-lieu of foreclosure as a percentage of the total number of loans in our single-family guaranty book of business as of the end of each respective period.

The ongoing weak economy, as well as high unemployment rates, continues to result in a high level of mortgage loans that transition from delinquent to REO status, either through foreclosure or deed-in-lieu of foreclosure. Our foreclosure rates remain high; however, foreclosures continue to proceed at a slow pace caused by continuing foreclosure process issues encountered by our servicers and changing legislative, regulatory and judicial requirements. The delay in foreclosures, as well as a net increase in the number of dispositions over acquisitions of REO properties, has resulted in a decrease in the inventory of foreclosed properties since December 31, 2010.

We continue to manage our REO inventory to minimize costs and maximize sales proceeds. However, as we are unable to market and sell a higher portion of our inventory, the pace at which we can dispose of our properties slows, resulting in higher foreclosed property expenses related to costs associated with ensuring that the property is vacant and costs of maintaining the property.

Table 42 displays the current status of our single-family foreclosed property inventory, including the percentage of our inventory that we are unable to market, as of the dates indicated.

Table 42: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of June 30, 2012		December 31, 2011	
Available-for-sale	23	%	28	%
Offer accepted[1]	19		17	
Appraisal stage[2]	11		8	
Unable to market:				
Redemption status[3]	14		12	
Occupied status[4]	13		15	
Rental property[5]	8		7	
Properties being repaired	5		6	
Other	7		7	
Total unable to market	47		47	
Total	100	%	100	%

(1) Properties for which an offer has been accepted, but the property has not yet been sold.
(2) Properties that are pending appraisals and being prepared to be listed for sale.
(3) Properties that are within the period during which state laws allows the former mortgagor and second lien holders to redeem the property.
(4) Properties that are still occupied, and for which the eviction process is not yet complete.
(5) Properties with a tenant living in the home under our Tenant in Place or Deed for Lease programs.

In February 2012, FHFA announced the pilot of an REO initiative that solicited bids from qualified investors to purchase approximately 2,500 foreclosed properties from us with the requirement to rent the purchased properties for a specified number of years. The pilot involves the sale of pools of foreclosed homes including both vacant properties and occupied rental properties. The first pilot transaction involves the sale of pools of properties located in geographically concentrated locations across the United States. The winning bidders have been chosen and transactions are expected to close in the third quarter of 2012. We do not yet know whether this initiative will have a material impact on our future REO sales and REO inventory levels.

Multifamily Mortgage Credit Risk Management

The credit risk profile of our multifamily mortgage credit book of business is influenced by the structure of the financing, the type and location of the property, the condition and value of the property, the financial strength of the borrower and lender, market and sub-market trends and growth, and the current and anticipated cash flows from the property. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We provide information on our credit-related expenses (income) and credit losses in "Business Segment Results—Multifamily Business Results."

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business, together with our Enterprise Risk Management division, which provides independent risk oversight of the Multifamily business, is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our portfolio or held by third parties). Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which is comprised of multiple lenders that span the spectrum from large financial institutions to smaller independent multifamily lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing, depending on the product type and/or loan size. Loans delivered to us by DUS lenders and their affiliates represented 87% of our multifamily guaranty book of business as of June 30, 2012 and 86% as of December 31, 2011.

We use various types of credit enhancement arrangements for our multifamily loans, including lender risk-sharing, lender repurchase agreements, pool insurance, subordinated participations in mortgage loans or structured pools, cash and letter of credit collateral agreements, and cross-collateralization/cross-default provisions. The most prevalent form of credit enhancement on multifamily loans is lender risk-sharing. Lenders in the DUS program typically share in loan-level credit losses in one of two ways: (1) they bear losses up to the first 5% of the unpaid principal balance of the loan and share in remaining losses up to a prescribed limit; or (2) they share up to one-third of the credit losses on an equal basis with us. Non-DUS lenders typically share or absorb credit losses based on a negotiated percentage of the loan or the pool balance.

Table 43 displays the percentage of the unpaid principal balance of loans in our multifamily guaranty book of business with lender risk-sharing and with no recourse to the lender as of the dates indicated.

Table 43: Multifamily Lender Risk-Sharing

	As of