FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K/A
March 09, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

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

Registrant s telephone number, including area code: (202) 752-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

(Title of class)

8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share

(Title of class)

8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1 stated value $50 per share

(Title of class)

Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share

(Title of class)

7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share

(Title of class)

6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share

(Title of class)

5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share

(Title of class)

5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share

(Title of class)

4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share

(Title of class)

5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share

(Title of class)

5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share

(Title of class)

5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share

(Title of class)

5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share

(Title of class)

5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2011 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $383 million.

As of January 31, 2012, there were 1,158,072,058 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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EXPLANATORY NOTE

Fannie Mae (formally known as the Federal National Mortgage Association) is filing this Amendment No. 1 on Form 10-K/A (the Amendment) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission (SEC) on February 29, 2012 (the Original Filing), to: (1) amend and restate Part II, Item 9B to report certain changes to compensation arrangements with our named executive officers; and (2) amend and restate Part III, Item 11 to include the required disclosures that were omitted in the Original Filing pursuant to General Instruction G to Form 10-K.

In accordance with Rule 12b-15 under the U.S. Securities Exchange Act of 1934 (the Exchange Act), Part II, Item 9B and Part III, Item 11 of the Original Filing have been amended and restated in their entirety, and Part IV, Item 15 of the Original Filing has been amended and restated to include as exhibits the new certifications required by Rule 13a-14(a) under the Exchange Act. This Amendment does not amend or otherwise update any other information in the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing.

PART II

Item 9B. Other Information

Termination Agreement with Former Deputy Chief Financial Officer

David C. Hisey, our former Executive Vice President and Deputy Chief Financial Officer, left the company on February 24, 2012. We entered into a termination agreement with Mr. Hisey on February 28, 2012, the terms of which were approved by FHFA. The agreement provides that Mr. Hisey will receive $966,625, representing all of his corporate performance-adjusted 2011 deferred pay, in four installments on the same payment dates as other deferred pay recipients. The agreement also provides that Mr. Hisey may elect to receive outplacement services and a subsidy for up to 18 months of medical and dental premiums if he elects COBRA continuation coverage.

The termination agreement provides that Mr. Hisey may not solicit or accept employment with or act in any way, directly or indirectly, to solicit or obtain employment or work for Freddie Mac for a period of 12 months following termination. Under the termination agreement, Mr. Hisey agreed to a general release of the company from all claims relating to his employment with or termination from the company.

2012 Executive Compensation Program

On March 8, 2012, FHFA instituted new compensation arrangements for most of our named executives. See Executive Compensation Compensation Discussion and Analysis 2012 Executive Compensation Program in Part III, Item 11 hereof for a description, which is incorporated herein by reference, of these new compensation arrangements.

Compensation Recoupment Policy

The Board revised the compensation recoupment policy applicable to our executive officers compensation effective March 8, 2012 to cover deferred salary under the executive compensation program adopted in March 2012 identified above. See Executive Compensation Compensation Discussion and Analysis Compensation Recoupment Policy in Part III, Item 11 hereof for a description, which is incorporated herein by reference, of this compensation recoupment policy.

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PART III

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Our 2011 executive compensation program was developed in December 2009 after we entered into conservatorship. The program was approved by the Federal Housing Finance Agency (FHFA) in consultation with the Department of the Treasury. This Compensation Discussion and Analysis describes our compensation program that was in effect for 2011 executive compensation. As described below under 2012 Executive Compensation Program, FHFA instituted a new executive compensation program for our named executives that is applicable for 2012 compensation.

Our 2011 executive compensation program was designed to fulfill two primary objectives:

- attract and retain executive talent with the specialized skills and knowledge necessary to manage a large financial services company; and

- link pay to performance through the use of performance-based elements of compensation.

Attract and Retain Executive Talent

Management and the Board of Directors appreciate the public interest in executive compensation at companies receiving taxpayer support and understand our responsibility for appropriate stewardship of those resources at Fannie Mae. A market-based, competitive executive compensation program is consistent with good stewardship of taxpayer support, as it enables us to attract and retain able and experienced executives who are essential to effectively manage our $3.1 trillion book of business. We require highly qualified executives to continue to mitigate the losses in the legacy book of business that was acquired prior to conservatorship, as well as to continue to grow the strong new book of business that we have acquired since 2009.

We and FHFA believe that a failure to maintain a competitive compensation program could adversely affect our ability to attract and retain qualified executives, which would threaten our ability to continue to provide liquidity and stability to the mortgage market at this pivotal point for the U.S. housing finance system. Further, the departure of key executives could halt or reverse the progress we have made in mitigating losses on our legacy book of business and growing a strong new book of business, which could result in increased draws on Treasury or reduce the amounts we are able to pay Treasury in the future, thereby increasing taxpayer costs.

We operate in a difficult environment and face an uncertain future, potential limitations on our executive and employee compensation, and heightened scrutiny of our actions by Congress and our regulators. These conditions have made it more difficult to attract and retain qualified executive management. We have already had significant executive departures since entering into conservatorship in September 2008 and, in January 2012, our current Chief Executive Officer announced that he will step down from his position when his successor is appointed. These conditions may also make succession planning more challenging if they negatively affect our ability to attract and retain qualified employees below the senior executive level that could fill our senior executive level positions if there is further turnover.

We face competition from both within the financial services industry and from businesses outside of the financial services industry for qualified executives. These competitors do not face restrictions on their ability to pay market-based compensation to their executives. An improving economy is likely to create additional attractive opportunities for our executives, which could lead to further management turnover. Further turnover in key management positions could threaten our ability to fulfill our responsibilities under our Charter.

Congress recognized the imperative of market-based executive compensation when enacting the Federal National Mortgage Association Charter Act, which provides for compensation for Fannie Mae executives that is

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comparable with compensation for employment in other similar businesses, including other publicly held financial institutions or major financial services companies, involving similar duties and responsibilities. The Charter Act also provides that Fannie Mae base a significant portion of our executive officers potential compensation on the company s performance.

Although we recognize the importance of paying market-based executive compensation in order to attract and retain qualified executives, we also recognize that we must balance this objective with our conservatorship status and our efforts to reduce taxpayer costs. Management and the Board carefully consider the costs of executive compensation when making compensation determinations. We have substantially reduced these costs since entering into conservatorship in September 2008. Actual total direct compensation for our Chief Executive Officer for 2011 was more than 50% lower than such compensation for our Chief Executive Officer for 2007. Average actual total direct compensation for Fannie Mae s other named executive officers for 2011 was more than 50% lower than such 2007 compensation for our other named executive officers. In addition to lower compensation levels, we also have reduced executive compensation by reducing the total number of our senior executives (senior vice presidents and above) by approximately 28% from the beginning of conservatorship through year-end 2011. We also seek to compensate newly hired executives at lower amounts than the executives they are replacing. In addition, FHFA has prohibited us from awarding compensation increases for our named executives, as well as for all other employees of the company, in 2011 and 2012, except in cases of promotions or significant changes in responsibilities. Our aggregate salary and employee benefit expense as a percentage of net revenues was 6% in 2011.

The company and FHFA set total compensation targets for each named executive officer based on the position requirements and the executive s expertise and experience. We and FHFA considered the compensation paid for these positions at comparable financial services companies, with which we must compete for talent. We describe the executive compensation benchmarking process under Comparator Group and Role of Benchmark Data below. In accordance with directives from FHFA, the Board of Directors did not increase the named executive officers compensation targets from 2009 levels in either 2010 or 2011. Further, as described below under 2012 Executive Compensation Program, FHFA has directed us to reduce the target compensation of each named executive who remains employed by us by 10% in 2012.

Link Pay to Performance

As described in more detail below, our 2011 executive compensation program consisted of three elements: base salary, deferred salary and a long-term incentive award. In order to align pay with performance, the long-term incentive award is based on performance against corporate goals and individual performance, and 50% of deferred salary is based on performance against corporate goals.

The Compensation Committee carefully evaluated our executives performance against the company s performance goals to determine variable compensation for 2011. Our 2011 corporate performance goals were designed to support the company s business objectives, which include providing liquidity to the housing market, mitigating credit losses on our pre-2009 book of business, reducing administrative expenses, meeting our obligations as program administrator of Treasury s Making Home Affordable program, and improving the company s controls and infrastructure. These goals were approved by FHFA.

The Compensation Committee s evaluation of the company s performance against the 2011 performance goals concluded that the company achieved most of its goals in a challenging operating environment. The Committee determined that the company s performance was strong in many areas: the company acquired and managed a high-quality book of new business that we expect will be profitable over its lifetime, provided significant liquidity to the housing market, controlled credit-related expenses on its pre-2009 loans, and limited administrative expenses. Based on its evaluation and considering input from FHFA, the Committee determined that the pools for the first installment of the 2011 long-term incentive awards and for the second installment of the 2010 long-term incentive awards for executive officers would be funded at 85% of target, and the performance-based portion of 2011 deferred salary would be paid at 85% of target. In making these decisions, the Committee also took into account that, while the company made significant progress in improving its infrastructure and risk and

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controls environment, it did not fully achieve all of the metrics relating to these goals. The Board of Directors and FHFA approved the Compensation Committee s determinations. See Determination of 2011 Compensation for more information about how compensation of our named executives was determined.

Named Executives for 2011

This Compensation Discussion and Analysis focuses on compensation decisions relating to our Chief Executive Officer, our Chief Financial Officer, our former Deputy Chief Financial Officer (who assumed the responsibilities of Chief Financial Officer from December 30, 2010 to July 10, 2011), and our next three most highly compensated executive officers during 2011. We refer to these individuals as our named executives. For 2011, our named executives were:

Michael J. Williams, President and Chief Executive Officer;

Susan R. McFarland, Executive Vice President and Chief Financial Officer;

David C. Hisey, Executive Vice President and Deputy Chief Financial Officer;

David C. Benson, Executive Vice President Capital Markets;

Terence W. Edwards, Executive Vice President Credit Portfolio Management; and

Timothy J. Mayopoulos, Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary.

Impact of Conservatorship

As discussed in the Original Filing under Business Conservatorship and Treasury Agreements Conservatorship, we have been under the conservatorship of FHFA since September 2008. The conservatorship has had a significant impact on the compensation received by our named executives, as well as the process by which executive compensation was determined. Regulatory requirements affecting our executive compensation include:

Our directors serve on behalf of FHFA and exercise their authority subject to the direction of FHFA. More information about the role of our directors is described in the Original Filing in Directors, Executive Officers and Corporate Governance Corporate Governance Conservatorship and Delegation of Authority to Board of Directors.

While we are in conservatorship, FHFA, as our conservator, retains the authority to approve and to modify both the terms and amount of any compensation. FHFA, as our conservator, has directed that our Board consult with and obtain FHFA s consent before taking any actions involving hiring, compensation or termination benefits of any officer at the executive vice president level and above and other specified executives. In addition, FHFA has limited the amount of compensation that we can pay to other senior officers.

FHFA, as our regulator, must approve any termination benefits we offer to our named executives and certain other officers identified by FHFA.

Under the terms of the senior preferred stock purchase agreement with Treasury, we may not enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any named executives or executive officers without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

Under the terms of the senior preferred stock purchase agreement, we may not sell or issue any equity securities without the prior written consent of Treasury, other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement. This effectively eliminates our ability to offer stock-based compensation.

Under the Housing and Economic Recovery Act of 2008 and related regulations issued by FHFA, the Director of FHFA has the authority to prohibit or limit us from making any golden parachute payment to specified categories of persons, including our named executives.

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As a result of these requirements, the 2011 compensation determinations for our named executives discussed in this Compensation Discussion and Analysis were approved by the Acting Director of FHFA.

2011 Executive Compensation Program

Overview of Program Objectives and Structure

Our 2011 executive compensation program was designed to fulfill two primary objectives:

- *Attract and Retain Executive Talent.* Our 2011 executive compensation program was intended to attract and retain executive talent with the specialized skills and knowledge necessary to manage a large financial services company. Executives with these qualifications are needed for the company to continue to fulfill its important role in providing liquidity to the mortgage market and supporting the housing market, as well as to prudently manage our book of business and be an effective steward of the government s and taxpayers support.

- *Pay for Performance.* Our 2011 executive compensation program was also intended to drive a pay for performance environment through the use of performance-based long-term incentive awards and deferred salary.

Management, the Board of Directors and FHFA seek to balance these two objectives with our conservatorship status and our efforts to reduce taxpayer costs.

In 2009, FHFA worked with our management and Board of Directors, and sought the guidance of Treasury s Special Master for TARP Executive Compensation, to develop an executive compensation program that met these objectives and also reflected evolving standards regarding executive compensation and, to the extent appropriate, was generally consistent with the structural standards created for firms that received exceptional assistance under the Troubled Asset Relief Program, or TARP. The views of management and the Board of Directors in the development of this executive compensation program reflected input from management s and the Compensation Committee s compensation consultants.

As a result of these efforts, in December 2009, we adopted a compensation program based on FHFA s guidance consisting of three primary elements: base salary, deferred pay and a long-term incentive award. We now refer to the deferred pay element of our compensation program as deferred salary to better reflect our view of the nature of this compensation element and at FHFA s direction to present our executive compensation information on a consistent basis with Freddie Mac. With regard to the relative distribution of total compensation among these elements, based on guidance from FHFA, we targeted the long-term incentive award component at one-third of total direct compensation, with base salary and deferred salary together constituting the remaining two-thirds of total direct compensation. In addition, based on guidance from FHFA, we limited annual base salary rates to no more than $500,000, except in the case of our Chief Executive Officer and Chief Financial Officer. All elements of our named executives direct compensation are paid in cash, due to the negligible market value of our common stock since entering into conservatorship and because we are prohibited from paying new stock-based compensation under the senior preferred stock purchase agreement without Treasury s consent. FHFA, in consultation with Treasury, approved our compensation program and the level of salary, deferred salary target and long-term incentive target for each of our named executives.

The Board and the Compensation Committee reviewed the compensation arrangements for the named executives in January 2011 and did not make any changes to the named executives salaries, deferred salary targets or long-term incentive targets for 2011. As described below under 2012 Executive Compensation Program, FHFA instituted and the Board authorized management to implement a new executive compensation program and new compensation targets for the named executives that are applicable for 2012 compensation.

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Elements of 2011 Compensation Program

Direct Compensation

The table below summarizes the principal elements, objectives and key features of our 2011 compensation program for our named executives.

Compensation Element	Form	Compensation Objectives	Key Features
Base Salary	Fixed cash payments, paid during the year on a bi-weekly basis.	Attract and retain named executives by providing a fixed level of cash compensation.	Base salary reflects the named executive s level of responsibility and experience, as well as individual performance over time.
			Base salary is capped at $500,000 for all of our executive officers, including the named executives, other than our Chief Executive Officer and Chief Financial Officer.
Deferred Salary	Payments that are paid to the named executives in cash in quarterly installments in the year following the performance year.	Retain named executives by deferring payment of additional cash compensation until the following year.	Half of 2011 deferred salary is based on the Board of Directors determination of corporate performance in 2011, as approved by FHFA. The remaining half of 2011 deferred salary is service based.
	50% of deferred salary is performance-based and the remaining 50% is service-based.	The performance-based portion of deferred salary provides incentives to the named executives to achieve our corporate performance goals.	Except in the limited circumstances described under Compensation Tables Potential Payments Upon Termination or Change-in-Control and Termination Agreement with our Former Deputy Chief Financial Officer below, we will pay installments of deferred salary only if the named executive is employed by Fannie Mae on the scheduled payment dates.
	2011 deferred salary will be paid in four equal quarterly installments in March, June, September and December of 2012.		
Long-term Incentive Award	A performance-based cash award that is paid over two calendar years.	Provide incentives to named executives to achieve corporate and individual performance goals, and serve as a retention incentive.	A named executive s target for a long-term incentive award is one-third of the executive s target total direct compensation.
	Half of the 2011 long-term incentive award was paid in February 2012 and the remaining half of the award will be paid in early 2013.		Half of the 2011 long-term incentive award was determined in February 2012 based on corporate and individual performance for 2011. The remaining half of the award will be determined in early 2013 based on corporate and individual performance for both 2011 and 2012.
			Except in the limited circumstances described under Compensation Tables Potential Payments Upon Termination or Change-in-Control below, we will pay installments of a long-term incentive award only if the named executive is employed by Fannie Mae on the scheduled payment dates.

FHFA must approve each long-term incentive award paid to a named executive.

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Employee Benefits

Our employee benefits are a fundamental part of our executive compensation program, and serve as an important tool in attracting and retaining senior executives. We describe these employee benefits in the table below. We provide more detail on our retirement plans under Compensation Tables Pension Benefits and Compensation Tables Nonqualified Deferred Compensation.

Benefit	Form	Primary Objective
Health, Welfare and Other Benefits	In general, the named executives are eligible for benefits available to our employee population as a whole, including our medical insurance plans, life insurance program and matching charitable gifts program. The named executives are also eligible to participate in our voluntary supplemental long-term disability plan, which is available to many of our employees.	Provide for the well-being of the named executive and his or her family.
Retirement Plans: ***Defined Benefit Pension Plans*** *Qualified Retirement Plan* *Non-qualified Supplemental Pension Plan and 2003 Supplemental Pension Plan* *Non-qualified Executive Pension Plan*	Our Retirement Plan is a tax-qualified defined benefit pension plan that was generally available to employees before participation in the plan was frozen in 2007. Our non-qualified Supplemental Pension Plans and Executive Pension Plan provide supplemental retirement benefits in addition to those offered by the Retirement Plan. The named executives who joined the company prior to 2008 (Mr. Williams, Mr. Hisey and Mr. Benson) participate in the company s defined benefit pension plans. Mr. Williams is the only named executive with a benefit under the Executive Pension Plan. We froze benefits under this plan in 2009. The named executives who joined the company after 2007 are not eligible to participate in any of these plans.	Retain named executives by providing a level of retirement income.
Non-qualified Deferred Compensation (Supplemental Retirement Savings Plan)	The Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The plan supplements the company s qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans. The named executives who joined the company after 2007 (Ms. McFarland, Mr. Edwards and Mr. Mayopoulos) participate in the company s Supplemental Retirement Savings Plan. The named executives who joined the company prior to 2008 are not eligible to participate in this plan, as they participate in some or all of the company s defined benefit pension plans.	Attract and retain named executives by providing retirement savings.
401(k) Plan (Retirement Savings Plan)	A tax-qualified defined contribution plan (401(k) plan) available to our employee population as a whole.	Attract and retain named executives by providing retirement savings in a tax-efficient manner.

All of the named executives are eligible to participate in this plan.

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Benefit	Form	Primary Objective
Relocation Benefits and Other Perquisites	From time to time, we offer relocation benefits to new executives. As described below under Compensation Arrangements with our Chief Financial Officer, we agreed to provide up to $100,000 in relocation benefits to Ms. McFarland to facilitate her move to the Washington, D.C. area.	Relocation benefits are provided to attract new named executives by reimbursing them for a specified amount of their costs associated with relocating to the Washington, D.C. area.
	We believe that perquisites should be a minimal part of the compensation package for our named executives. Except for the relocation benefits provided to Ms. McFarland described above, the perquisites we provided to our named executives in 2011 did not exceed $2,000 in the aggregate.	
	Total perquisites for any named executive cannot exceed $25,000 per year without FHFA approval, and we do not provide a gross-up for taxes due on any perquisite.	

Sign-on Award

In addition to the direct compensation and employee benefits described in the tables above, from time to time, a new executive may be awarded a sign-on award to attract the executive to join Fannie Mae and/or to compensate him or her for compensation forfeited upon leaving a prior employer. As described in more detail under Compensation Arrangements with our Chief Financial Officer, our Board of Directors awarded a $1.7 million sign-on award to our new Chief Financial Officer, Susan R. McFarland, in July 2011 to partially compensate her for equity grants forfeited upon leaving her prior employer. No other named executive was awarded a sign-on award in 2011.

Severance Benefits

We have not entered into agreements with any of our named executives that would entitle the executive to severance benefits, other than the termination agreement with Mr. Hisey described below under Compensation Tables Potential Payments Upon Termination or Change-in-Control Termination Agreement with our Former Deputy Chief Financial Officer. Information on compensation that we may pay to a named executive in certain circumstances in the event the executive s employment is terminated is provided below in Compensation Tables Potential Payments Upon Termination or Change-in-Control. FHFA must approve any termination benefits we offer our named executives.

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Determination of 2011 Compensation

Summary of 2011 Compensation Actions

The table below displays the named executives 2011 compensation targets compared to the actual payments to be received by the named executives. The amounts shown in the Total Target and Total Actual columns consist of the sum of 2011 base salary, 2011 deferred salary and amounts associated with the first installment of the 2011 long-term incentive award and the second installment of the 2010 long-term incentive award. This table is not intended to replace the summary compensation table, required under applicable SEC rules, which is included below under Compensation Tables Summary Compensation Table for 2011, 2010 and 2009.

		2011 Deferred Salary		Long-Term Incentive Award (First Installment of 2011 Award and Second Installment of 2010 Award)[2]		Total	
Named Executive	2011 Base Salary Rate	Target	Actual [1]	Target	Actual	Target	Actual
Michael Williams	$ 900,000	$ 3,100,000	$ 2,867,500	$ 2,000,000	$ 1,491,000	$ 6,000,000	$ 5,258,500
Susan McFarland[3]	600,000	1,533,333	1,418,333	254,247	218,906	2,387,580	2,237,239
David Hisey[4]	425,000	1,045,000	966,625	730,000	498,225	2,200,000	1,889,850
David Benson	500,000	1,369,667	1,266,942	930,333	820,553	2,800,000	2,587,495
Terence Edwards	500,000	1,369,667	1,266,942	930,333	854,744	2,800,000	2,621,686
Timothy Mayopoulos	500,000	1,469,667	1,359,442	980,333	952,149	2,950,000	2,811,591

(1) Target 2011 deferred salary is 50% service-based and 50% corporate performance-based. The Compensation Committee determined that the corporate performance-based portion of 2011 deferred salary will be paid at 85% of target.

(2) Except for Ms. McFarland, consists of the first installment of each named executive s 2011 long-term incentive award plus the second installment of each named executive s 2010 long-term incentive award. Amounts do not include the second installment of the 2011 long-term incentive awards.

(3) Ms. McFarland joined the company in July 2011. The 2011 base salary rate shown in this table represents her annual base salary rate. The actual amount of base salary she received in 2011 was $288,462. Ms. McFarland s 2011 long-term incentive award was prorated based on her hire date; her 2011 deferred salary was not prorated. Because she joined the company in 2011, Ms. McFarland did not receive a 2010 long-term incentive award. Ms. McFarland s total annual direct compensation target for 2011 including the second installment of her 2011 long-term incentive award is $3.2 million. The amounts shown in this table for Ms. McFarland do not include the $1.7 million sign-on award that she was awarded when she joined the company. See Compensation Tables Summary Compensation Table for 2011, 2010 and 2009 and Compensation Arrangements with our Chief Financial Officer for more information regarding Ms. McFarland s 2011 compensation.

(4) Mr. Hisey left the company in February 2012. Pursuant to his termination agreement with the company, he will receive all of his 2011 deferred salary on the same payment dates as other deferred salary recipients. See Compensation Tables Potential Payments Upon Termination or Change-in-Control Termination Agreement with our Former Deputy Chief Financial Officer for a description of this termination agreement.

2011 Corporate Performance Goals and Assessment of 2011 Corporate Performance

In March 2011, the Board established a challenging set of 2011 corporate performance goals for the performance-based portion of 2011 deferred salary and the first installment of the 2011 long-term incentive award, as well as 2012 corporate performance goals for the second installment of the 2011 long-term incentive award. FHFA approved these goals in April 2011. In addition, in 2010, the Board established, and FHFA approved, 2011 corporate performance goals for the second installment of the 2010 long-term incentive award. The Board did not assign any relative weight to the goals and the Compensation Committee may consider other factors in addition to the goals in assessing corporate performance.

In late 2011 and early 2012, the Compensation Committee reviewed our performance against each of our 2011 performance goals and related metrics to determine the funding of the pool for the first installment of the 2011 long-term incentive awards and the performance-based portion of 2011 deferred salary. The Compensation Committee also reviewed our performance against our 2010 performance goals and additional 2011 performance

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goals to determine the funding of the pool for the second installment of the 2010 long-term incentive awards. In this process, the Compensation Committee reviewed management s assessment of the company s performance against the goals and discussed the company s performance with the Chief Executive Officer. The results of the Compensation Committee s reviews are summarized below.

2011 Corporate Performance Goals

The first table below presents our 2011 corporate performance goals and related metrics for the first installment of the 2011 long-term incentive award and the performance-based portion of 2011 deferred salary, and management s assessment of our achievement against these goals and metrics. The second table below presents our 2011 goals for the second installment of the 2010 long-term incentive award, and management s assessment of our achievement against these goals. The results of the Compensation Committee s review of our performance against these goals and metrics are summarized following the tables.

2011 Long-term Incentive Award (First Installment) and 2011 Deferred Salary Goals

Goals and Related Metrics	Performance Against Goal/Metric
***Goal 1*: Achieve key financial targets, including acquiring and managing a profitable, high-quality book of new business from 2009 forward.**	**Achieved this goal.**
Profitability:	
Net revenue margin: Achieve a specified minimum projected lifetime net revenue margin on the company s new single-family book of business from 2009 forward (excluding loans purchased pursuant to the Administration s Home Affordable Refinance Program (HARP loans)). Net revenue margin refers to our expected guaranty fee revenue on the loans less our expected credit losses on those loans over their lifetime.	Achieved this metric. See Information Regarding Undisclosed Profitability and Credit Quality Metrics below this table for further information.
Return on capital: Achieve projected returns at time of acquisition in excess of cost of capital on 2011 single-family and multifamily acquisitions (excluding HARP loans in the case of single-family acquisitions and excluding loan modifications in the case of multifamily acquisitions).	Achieved this metric. See Information Regarding Undisclosed Profitability and Credit Quality Metrics below this table for further information.
Credit Quality:	
Single-family: On 2011 acquisitions (excluding HARP loans), in the aggregate, do not exceed a specified internal metric that measures the likelihood of a loan becoming seriously delinquent within one year of acquisition.	Achieved this metric. See Information Regarding Undisclosed Profitability and Credit Quality Metrics below this table for further information.
Multifamily: On 2011 acquisitions, achieve a weighted average debt service coverage ratio greater than 1.25 and a weighted average loan-to-value ratio of less than 80%.	Achieved these metrics, with a weighted average debt service coverage ratio of 1.49 and a weighted average loan-to-value ratio of 65% on 2011 multifamily acquisitions.
Other Financial Targets:	
Expenses: Limit core administrative expenses for 2011 to no more than $1.8 billion, or a 10% reduction from 2010.	Achieved this metric, with core administrative expenses of $1.7 billion in 2011. (Core administrative expenses exclude $635 million in costs relating to the credit organization, Treasury s Making Home Affordable (MHA) program and extraordinary expenses that are included in administrative expenses in our statement of operations for 2011.)
Losses: Limit 2011 net loss to no more than $21.6 billion.	Achieved this metric, with a net loss of $16.9 billion for 2011.