FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 26, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2009

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
Common Stock, without par value	New York Stock Exchange Chicago Stock Exchange
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share	New York Stock Exchange
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value $50 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share	New York Stock Exchange
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share	New York Stock Exchange

6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share	**New York Stock Exchange**
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share	**New York Stock Exchange**
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share	**New York Stock Exchange**
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share	**New York Stock Exchange**
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share	**New York Stock Exchange**
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share	**New York Stock Exchange**
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share	**New York Stock Exchange**
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share	**New York Stock Exchange**
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share	**New York Stock Exchange**

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

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)
5.10% 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 þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o 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 o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(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 o No þ

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold on June 30, 2009 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $645 million.

As of January 31, 2010, there were 1,116,805,764 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

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MD&A TABLE REFERENCE

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PART I

We have been under conservatorship, with the Federal Housing Finance Agency (FHFA) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury (Treasury), and their impact on shareholders in Conservatorship and Treasury Agreements.

This report contains forward-looking statements, which are statements about matters that are not historical facts. Forward-looking statements often include words like expects, anticipates, intends, plans, believes, seeks, es would, should, could, may, or similar words. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors including those discussed in Risk Factors and elsewhere in this report. Please review Forward-Looking Statements for more information on the forward-looking statements in this report.

We provide a glossary of terms in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Glossary of Terms Used in This Report.

Item 1. Business

OVERVIEW

Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market. Our most significant activities include providing market liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae mortgage-backed securities, which we refer to as Fannie Mae MBS, and purchasing mortgage loans and mortgage-related securities in the secondary market for our mortgage portfolio. We acquire funds to purchase mortgage-related assets for our mortgage portfolio by issuing a variety of debt securities in the domestic and international capital markets. We also make other investments that increase the supply of affordable housing. During 2009, we concentrated much of our efforts on preventing foreclosures and helping keep families in their homes, including through our role in the Obama Administration s initiatives to protect and stabilize the housing and mortgage markets. We describe our business activities below. We also provide information on the government s housing stability initiatives and our role in those initiatives.

As a federally chartered corporation, we are subject to extensive regulation, supervision and examination by FHFA, and regulation by other federal agencies, including Treasury, the Department of Housing and Urban Development (HUD), and the Securities and Exchange Commission (SEC).

Although we are a corporation chartered by the U.S. Congress, our conservator is a U.S. government agency, Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and Treasury has made a commitment under a senior preferred stock purchase agreement to provide us with funds under specified conditions to maintain a positive net worth, the U.S. government does not guarantee our securities or other obligations. Our common stock is listed on the New York Stock Exchange (NYSE) and traded under the symbol FNM. Our debt securities are actively traded in the over-the-counter market.

We have been under conservatorship, with FHFA acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. FHFA delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship.

Since our entry into conservatorship, we have entered into agreements with Treasury that include covenants that significantly restrict our business activities and provide for substantial U.S. government financial support. We provide additional information on the conservatorship, the provisions of our agreements with the Treasury, and its impact on our business below under Conservatorship and Treasury Agreements and Risk Factors.

RESIDENTIAL MORTGAGE MARKET

The U.S. Residential Mortgage Market

We conduct business in the U.S. residential mortgage market and the global securities market. In response to the financial crisis and severe economic recession that began in December 2007, accelerated in late 2008 and continued to deepen in 2009, the U.S. government took a number of extraordinary measures designed to provide fiscal stimulus, improve liquidity and protect and support the housing and financial markets. Examples of these measures include: (1) the Federal Reserve s temporary program to purchase up to $1.25 trillion of GSE mortgage-backed securities by March 31, 2010, which is intended to provide support to mortgage lending and the housing market and to improve overall conditions in private credit markets; (2) the Administration s Making Home Affordable Program, which is intended to stabilize the housing market by providing assistance to homeowners and preventing foreclosures; and (3) the first-time and move-up homebuyer tax credits, enacted to help increase home sales and stabilize home prices.

Total U.S. residential mortgage debt outstanding, which includes $10.9 trillion of single-family mortgage debt outstanding, was estimated to be approximately $11.8 trillion as of September 30, 2009, the latest date for which information was available, according to the Federal Reserve. After increasing every quarter since record keeping began in 1952 until the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining since then. We owned or guaranteed mortgage assets representing approximately 27.5% of total U.S. residential mortgage debt outstanding as of September 30, 2009.

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

Housing and Mortgage Market and Economic Conditions

The housing sector, while still fragile, began to show some signs of stabilization and improvement in the second half of 2009, due in part to the government s policy initiatives and programs to provide fiscal stimulus, improve liquidity and protect and support the housing and financial markets, and the U.S. economy began to emerge from the financial crisis and severe economic recession that began at the end of 2007. Home price declines began to moderate and deterioration in the labor market began to abate as payroll job losses diminished and weekly claims for unemployment fell steadily as 2009 progressed. Mortgage interest rates began to decline in late 2008 when the Federal Reserve announced that it would purchase $1.25 trillion of GSE mortgage-backed securities in an effort to lower rates, increase credit availability and bolster the housing market. Mortgage interest rates remained low throughout 2009, falling to record lows in the spring of 2009 and again in the fall.

The table below presents several key indicators related to the total U.S. residential mortgage market.

Housing and Mortgage Market Indicators[1]

	2009	2008	2007	% Change 2009	% Change 2008
Home sales (units in thousands)	5,530	5,398	6,428	2.4%	(16.0)%
New home sales	374	485	776	(22.9)	(37.5)
Existing home sales	5,156	4,913	5,652	4.9	(13.1)
Home price appreciation (depreciation) based on Fannie Mae House Price Index (HPI[2])	(2.2)%	(10.1)%	(4.0)%		
Home price appreciation (depreciation) based on FHFA Purchase Only Index[3]	(1.2)%	(8.2)%	(1.1)%		
Annual average fixed-rate mortgage interest rate[4]	5.0%	6.0%	6.3%		
Single-family mortgage originations (in billions)	$ 1,976	$ 1,580	$ 2,380	25.1	(33.6)
Type of single-family mortgage origination:					
Refinance share	67%	52%	51%		
Adjustable-rate mortgage share	4%	11%	20%		
Total U.S. residential mortgage debt outstanding (in billions)[5]	$ 11,764	$ 11,915	$ 11,957	(1.3)	(0.4)

(1) The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the Bureau of the Census, HUD, the National Association of Realtors, the Mortgage Bankers Association and FHFA. Single-family mortgage originations, as well as the adjustable-rate mortgage and refinance shares, are based on February 2010 estimates from Fannie Mae s Economics & Mortgage Market Analysis Group. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.

(2) Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae s HPI is a weighted repeat transactions index, meaning that it measures average price changes in repeat sales on the same properties. Fannie Mae s HPI excludes prices on properties sold in foreclosure. The reported home price appreciation (depreciation) reflects the percentage change in Fannie Mae s HPI from the fourth quarter of the prior year to the fourth quarter of the reported year.

(3) FHFA publishes a purchase-only House Price Index quarterly that is based solely on Fannie Mae and Freddie Mac loans. As a result, it excludes loans in excess of conforming loan amounts and includes only a portion of total subprime and Alt-A loans outstanding in the overall market. FHFA s HPI is also a weighted repeat transactions index. The reported home price appreciation (depreciation) reflects the percentage change in FHFA s HPI from the fourth quarter of the prior year to the fourth quarter of the reported year.

(4) Based on the annual average 30-year fixed-rate mortgage interest rate reported by Freddie Mac.

(5)

Information for 2009 is through September 30, 2009 and has been obtained from The Federal Reserve s September 2009 mortgage debt outstanding release.

Home prices, which rose slightly but consistently in the spring and summer, were relatively flat in the fourth quarter of 2009. On average, national home prices declined by approximately 2.2% in 2009. We estimate that home prices on a national basis have declined by approximately 16.4% from their peak in the third quarter of 2006. New home sales and housing starts remained sluggish throughout 2009. New home sales accounted for just 5.6% of total home sales in the fourth quarter of 2009, down from a peak of more than 19% at the beginning of 2005. Existing home sales rose throughout 2009, particularly during the third and fourth quarters of 2009, boosted by government support, including the first-time and move up homebuyer tax credit, as well as low mortgage interest rates and reduced home prices. The National Association of Realtors reported that existing home sales increased by 13.9% in the fourth quarter of 2009 the highest level in nearly three years.

As a result of the increase in existing home sales, the number of unsold single-family homes in inventory began to drop in the fourth quarter of 2009. However, the supply of homes as measured by the inventory/sales ratio remains above long-term average levels. According to the National Association of Realtors, there was a 7.2 month average supply of existing unsold homes as of December 31, 2009, compared with a 9.4 month average supply as of June 30, 2009 and as of December 31, 2008. This national average inventory/sales ratio masks significant regional variation as some regions, such as Florida, struggle with large inventory overhang while others, such as California, experience nearly depleted inventories.

An additional factor weighing on the market will be the elevated level of vacant properties, as reported by the Census Bureau. As of the fourth quarter of 2009, vacancy rates are above long-term average levels, with vacant and for-sale properties at an estimated 780,000 above the long-term average, vacant and for-rent properties at an estimated 1.2 million above the long-term average, and properties held off the market for other reasons at an estimated 500,000 above the long-term average. These vacant units held off the market, as well as about 5 million mortgages that are seriously delinquent (90 days or more past due or in the foreclosure process), represent a shadow inventory weighing on the market and its return to stability.

We estimate that total single-family mortgage originations increased by 25% in 2009 to $1.98 trillion, with a purchase share of 33% and a refinance share of 67%. However, the expected modest increase in mortgage rates will likely reduce the share of refinance loans to approximately 45% and, even accounting for the increase in home purchase loans, total single-family originations are expected to decline to about $1.3 trillion in 2010.

After increasing every quarter since record keeping began in 1952 until the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining due to several factors including rising foreclosures, declining house prices, increasing loan-to-value ratios, increased cash sales, reduced household formation, and reduced home equity extraction. Total U.S. residential mortgage debt outstanding fell by approximately 3.1% in the third quarter of 2009 on an annualized basis, compared with a decrease of 1.6% in the second quarter of 2009 on an annualized basis. We anticipate another 1.7% decline in mortgage debt outstanding in 2010.

Despite signs of stabilization and improvement one out of seven borrowers was delinquent or in foreclosure during the fourth quarter of 2009, according to the Mortgage Bankers Association National Delinquency Survey. The housing market remains under pressure due to the high level of unemployment, which was the primary driver of the significant increase in mortgage delinquencies and defaults in 2009. At the start of the recession in December 2007, the unemployment rate was 5.0%, based on data from the U.S. Bureau of Labor Statistics. The unemployment rate rose to 7.7% by the start of 2009 and continued rising during the year, reaching a 26-year high of 10.1% in October 2009, and falling to 9.7% in January 2010. We expect the unemployment rate to decline modestly yet remain elevated throughout 2010.

The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time (part-time workers for economic reasons) and those not looking for work but who want to work and are available for work (discouraged workers), was 17.3% in December 2009, close to the record high of 17.4% in October 2009.

Furthermore, the median time that unemployed workers are unemployed is at near record levels. Also, there are an increasing number of households that have exhausted their unemployment benefits. All of these factors place additional stress on the ability of homeowners to meet their mortgage and other consumer debt obligations.

The decline in house prices both nationally and regionally has left many homeowners with negative equity in their mortgages, which means their principal balance exceeds the current market value of their home. This provides an incentive for borrowers to walk away from their mortgage obligations and for the loans to become delinquent and proceed to foreclosure. According to First American CoreLogic, Inc. approximately 11 million, or 24%, of all residential properties with mortgages were in negative equity in the fourth quarter of 2009, which contributes to the current estimate of 5 million seriously delinquent loans based on the Mortgage Bankers Association National Delinquency Survey. This potential supply also weighs on the supply/demand balance putting downward pressure on both house prices and rents. See Risk Factors for a description of risks to our business associated with the weak economy and housing market.

Multifamily housing fundamentals remained stressed throughout 2009, primarily due to high unemployment. As a result of the high unemployment, it is also expected that new household formations will remain well below average, which in turn has negatively affected vacancy rates and rent levels. While apartment property

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sales increased slightly during the second half of 2009 from the first half of 2009, we believe the increase in sales was likely due to sellers reducing sales prices. We believe that there is likely to be an increase in the supply of multifamily properties for sale in the near term because of the currently high number of distressed multifamily properties. In addition, we believe that exposure to refinancing risk may be higher for multifamily loans that are due to mature during the next several years.

EXECUTIVE SUMMARY

Please read this Executive Summary together with our Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and our consolidated financial statements as of December 31, 2009 and related notes. This discussion contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Please review Forward-Looking Statements for more information on the forward-looking statements in this report and Risk Factors for a discussion of factors that could cause our actual results to differ, perhaps materially, from our forward-looking statements. Please also see MD&A Glossary of Terms Used in This Report.

Our Mission

Our public mission is to support liquidity and stability in the secondary mortgage market and increase the supply of affordable housing. In connection with our public mission, FHFA, as our conservator, and the Obama Administration have given us an important role in addressing housing and mortgage market conditions. As we discuss below and elsewhere in Business, we are concentrating our efforts on keeping people in their homes and preventing foreclosures while continuing to support liquidity and stability in the secondary mortgage market.

Our Business Objectives and Strategy

Our Board of Directors and management consult with our conservator in establishing our strategic direction, taking into consideration our role in addressing housing and mortgage market conditions. FHFA has approved our business objectives. We face a variety of different, and potentially conflicting, objectives including:

- minimizing our credit losses from delinquent mortgages;
- providing liquidity, stability and affordability in the mortgage market;
- providing assistance to the mortgage market and to the struggling housing market;
- limiting the amount of the investment Treasury must make under our senior preferred stock purchase agreement;
- returning to long-term profitability; and
- protecting the interests of the taxpayers.

We therefore regularly consult with and receive direction from our conservator on how to balance these objectives. Our pursuit of our mission creates conflicts in strategic and day-to-day decision-making that could hamper achievement of some or all of these objectives.

We currently are concentrating our efforts on minimizing our credit losses by using foreclosure alternatives to address delinquent mortgages, starting with alternatives, such as modifications, that permit people to stay in their homes. Where there is no available, lower-cost alternative, our goal is to move to foreclosure expeditiously. We also are continuing our significant role in the secondary mortgage market through our guaranty and capital markets businesses. These efforts are intended to support liquidity and affordability in the mortgage market, while we continue our foreclosure prevention activities. Currently, one of the principal ways in which we are working to minimize foreclosures and delinquent mortgages is through our participation in the Obama Administration s Making Home Affordable Program. If the Making Home Affordable Program is successful in reducing foreclosures and keeping borrowers in their homes, it may benefit the overall housing market and help in reducing our long-term credit losses. We provide an update on our participation in the program below under the heading Homeowner Assistance Initiatives.

The ongoing adverse conditions in the housing and mortgage markets, along with the continuing credit deterioration throughout our mortgage credit book of business and the costs associated with our efforts pursuant to our mission, will increase the amount of funds that Treasury is required to provide to us. In turn, these factors make it exceedingly unlikely that we will be able to return to long-term profitability anytime in the foreseeable future. Further, there is significant uncertainty regarding the future of our business. In addition, our regulators, the Administration and Congress are considering options for the future state of Fannie Mae, Freddie Mac and the Federal Home Loan Bank system.

Summary of our Financial Performance for 2009

Our financial results for 2009 reflected the continued adverse impact of the weak economy and housing market, which has resulted in record mortgage delinquencies and contributed to our recording significant credit-related expenses and net losses during each quarter of the year. We recorded a net loss attributable to common stockholders, which includes dividends on senior preferred stock, of $74.4 billion and a diluted loss per share of $13.11 in 2009, compared with a net loss attributable to common stockholders of $59.8 billion and a diluted loss per share of $24.04 in 2008. The $14.7 billion increase in our net loss in 2009 from 2008 was primarily due to the increase in our credit-related expenses, which totaled $73.5 billion in 2009 and were more than double our credit-related expenses for 2008, and to our recognition of $5.5 billion in 2009 in other-than-temporary impairment losses on our federal low-income housing tax credit (LIHTC) investments. Our credit-related expenses and other-than-temporary impairment losses were partially offset by a lower level of fair value losses of $17.3 billion and a $5.7 billion increase in net interest income. In addition, we recorded a tax benefit of $985 million in 2009, compared with a tax expense of $13.7 billion in 2008 due to the carryback in 2009 of a portion of our current year tax loss to prior years and recognition of expense for a net deferred tax asset valuation allowance of $25.7 billion in 2009 as compared to $30.8 billion in 2008. The decrease in diluted loss per share from 2008 to 2009 is primarily due to the issuance of a common stock warrant to Treasury in September 2008 that resulted in a substantial increase in our weighted-average shares outstanding during 2009 over 2008.

For the fourth quarter of 2009, we recorded a net loss attributable to common stockholders of $16.3 billion and a diluted loss per share of $2.87, compared with a net loss attributable to common stockholders of $19.8 billion and a diluted loss per share of $3.47 for the third quarter of 2009. The $3.4 billion decrease in our net loss for the fourth quarter of 2009 from the third quarter of 2009 was driven principally by a lower level of credit-related expenses of $10.0 billion, which was offset by the recognition of $5.0 billion in the fourth quarter of 2009 in other-than-temporary impairment losses on our LIHTC investments.

Because of our significant net losses, we have not been able to maintain a positive net worth without government funding since September 30, 2008. We had a net worth deficit of $15.3 billion as of December 31, 2009, compared with a net worth deficit of $15.0 billion as of September 30, 2009, and $15.2 billion as of December 31, 2008. Our net worth deficit as of December 31, 2009 was negatively impacted by the recognition of our net loss of $72.0 billion and senior preferred stock dividends of $2.5 billion. These reductions in our net worth were offset by our receipt of $59.9 billion in funds from Treasury under the senior preferred stock purchase agreement, as well as from a reduction in unrealized losses on available-for-sale securities of $4.9 billion and the reversal of a portion of our deferred tax asset valuation allowance, in the amount of $3.0 billion, in connection with our April 1, 2009 adoption of the new accounting standard for assessing other-than-temporary impairments. We also reclassified $6.4 billion in unrealized losses on available-for-sale securities to other-than-temporary impairments, which were recognized as part of our net loss for 2009. Our net worth, which is the basis for determining the amount that Treasury has committed to provide us under the senior preferred stock purchase agreement, reflects the Total deficit reported in our consolidated balance sheets prepared in accordance with GAAP as of the end of each period.

We generally may request funds under Treasury s commitment on a quarterly basis in order to maintain a positive net worth. We had received an aggregate of $59.9 billion in funding from Treasury as of

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December 31, 2009. In February of 2010, the Acting Director of FHFA submitted a request to Treasury on our behalf for an additional $15.3 billion to eliminate our net worth deficit as of December 31, 2009, and requested receipt of those funds on or before March 31, 2010. When Treasury provides the additional funds that have been requested, we will have received an aggregate of $75.2 billion from Treasury. The aggregate liquidation preference on the senior preferred stock will be $76.2 billion, which will require an annualized dividend of approximately $7.6 billion. This amount exceeds our reported annual net income for all but one of the last eight years, in most cases by a significant margin. Our senior preferred stock dividend obligation, combined with potentially substantial commitment fees payable to Treasury starting in 2011 (the amounts of which have not yet been determined) and our effective inability to pay down draws under the senior preferred stock purchase agreement, will have a significant adverse impact on our future financial position and net worth. See Risk Factors for more information on the risks to our business posed by our dividend obligations under the senior preferred stock purchase agreement.

In addition to our GAAP consolidated balance sheet, we provide a supplemental non-GAAP fair value balance sheet. While some assets and liabilities are reported at fair value on our GAAP consolidated balance sheet, we report all of our assets and liabilities at estimated fair value on our non-GAAP fair value balance sheet. We derive the fair value of our net assets, which is different from our GAAP net worth, from our supplemental non-GAAP fair value balance sheet. The fair value of our net assets increased by $6.4 billion in 2009, resulting in a deficit of $98.8 billion as of December 31, 2009, compared with a deficit of $90.4 billion as of September 30, 2009, and $105.2 billion as of December 31, 2008. The $8.4 billion decrease in the fair value of our net assets in the fourth quarter of 2009 was primarily due to a decrease in our net guaranty assets driven by an increase in the estimated fair value of our guaranty obligations. The $6.4 billion increase in the fair value of our net assets in 2009 was primarily due to $59.9 billion in funds received from Treasury under the senior preferred stock purchase agreement, offset by a decrease in the fair value of our net assets, excluding capital transactions, of $51.1 billion in 2009, primarily due to the adverse impact on our net guaranty assets from the continued weakness in the housing market and the increase in unemployment, which contributed to a significant increase in the fair value of our guaranty obligations. The Federal Reserve s program to purchase mortgage-backed securities of Fannie Mae, Freddie Mac and Ginnie Mae and debt securities of Fannie Mae, Freddie Mac and the Federal Home Loan Banks had a positive impact on the fair value of our net assets. The significant purchasing of agency MBS and debt by the Federal Reserve in 2009 helped in narrowing the spreads between agency MBS and debt and Treasury yields to the levels exhibited prior to the financial crisis, which contributed to an increase in the fair value of our net assets. We describe in greater detail the differences between our GAAP balance sheet and supplemental non-GAAP balance sheet in MD&A Supplemental Non-GAAP Information Fair Value Balance Sheets.

Although there have been signs of stabilization in the housing market and economy, we expect that our credit-related expenses will remain high in the near term due in large part to the stress of high unemployment and underemployment on borrowers and the fact that many borrowers who owe more on their mortgages than their houses are worth are defaulting. As a result, we expect to continue to have losses and net worth deficits in 2010, which will require us to request additional funds from Treasury. Our ability to access funds from Treasury under the senior preferred stock purchase agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We provide additional detail on the terms of the senior preferred stock purchase agreement, as amended, and the conditions under which we may be placed into receivership in Conservatorship and Treasury Agreements.

Effective January 1, 2010, we adopted new accounting standards for transfers of financial assets and consolidation, which will have a major impact on the presentation of our consolidated financial statements. The new standards require that we consolidate the substantial majority of our MBS trusts and record the underlying assets (typically mortgage loans) and debt (typically bonds issued by the trusts in the form of Fannie Mae MBS certificates) of these trusts as assets and liabilities on our consolidated balance sheet. Please see MD&A Off-Balance Sheet Arrangements and Variable Interest Entities Elimination of QSPEs and Changes in the Consolidation Model for Variable Interest

Entities for a discussion of the impact of these new accounting standards on our accounting and financial statements.

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Credit Overview

We discuss below in this section a number of steps we have taken to minimize our credit losses from delinquent mortgages in our guaranty book of business. Under the heading Homeowner Assistance Initiatives below, we provide more detailed information on our work to expand refinance opportunities for borrowers and to help homeowners keep their homes, or at least avoid foreclosure.

2009 Acquisitions

In addition to our efforts, discussed below, to minimize credit losses on loans already in our book, during 2008 and early 2009 we made changes in our pricing and eligibility standards that helped to improve the risk profile of our new single-family business in 2009 and support sustainable homeownership. In 2009, we purchased or guaranteed an estimated $823.6 billion in new business, measured by unpaid principal balance. Compared to our 2008 acquisitions, the composition of our 2009 acquisitions experienced a decline in the average original loan-to-value (LTV) ratio from 72% to 67%, an increase in the average FICO credit score from 738 to 761, and a shift in product mix to more fully amortizing fixed-rate mortgage loans. The early performance of the single-family loans we acquired in 2009 appears stronger than loans acquired in any other year in the past decade. While this early performance is strong, we cannot yet predict how these loans will ultimately perform. Moreover, we expect the ultimate performance of these loans will be affected by macroeconomic trends, including unemployment, the economy, interest rates, and house prices. As of December 31, 2009, loans acquired in 2009 represented 23.6% of our total single family guaranty-book of business. We expect that these loans may have relatively slow prepayment speeds, and therefore may remain in our book of business for a relatively long time, due to the historically low interest rates available throughout 2009, which resulted in our 2009 acquisitions overall having an average interest rate of 4.9%. In addition to changes in our pricing and eligibility standards, our 2009 acquisitions reflect changes in the eligibility standards of mortgage insurers, which further reduced our acquisition of loans with higher LTV ratios. Also, the Federal Housing Administration (FHA) has become the lower-cost option, or in some cases the only option, for loans with higher LTV ratios, which further reduced our acquisition of these loans. Our 2009 acquisitions profile was further enhanced by a significant increase in our acquisition of refinanced loans, which generally have a stronger credit profile as the act of refinancing indicates the borrower s ability and desire to maintain homeownership. Whether our 2010 acquisitions exhibit the same credit profile as our 2009 acquisitions will depend on many factors, including our future pricing and eligibility standards, our future objectives, mortgage insurer s eligibility standards, and future activity by our competitors, including FHA.

Loss Mitigation Efforts

The performance of loans in our guaranty book of business deteriorated significantly during 2009 as a result of the sustained decline in home prices, the weakened economy, and the rise in unemployment and underemployment during the year. In order to minimize our credit losses, we believe we must (1) keep more borrowers current on their loan payments through outreach programs to identify and assist borrowers on the verge of delinquency; (2) prevent borrowers from defaulting on their loans through home retention strategies, including loan modifications, repayment plans and forbearances; (3) reduce the costs associated with foreclosures by promoting foreclosure alternatives, including preforeclosure sales and deeds-in-lieu of foreclosure; (4) move to foreclosure expeditiously where there is no available, lower-cost alternative; (5) expedite the sales of REO properties, or real-estate owned by Fannie Mae because we have obtained it through foreclosure or a deed-in-lieu of foreclosure, and transform stagnant properties into cash generating assets through rental and leasing programs; and (6) aggressively pursue collections on repurchase and compensation claims due from lenders and mortgage insurers. It will be through these strong asset management initiatives that we will achieve our stated goal of decreasing our credit losses and stabilizing markets. We are pursuing a reduction in our credit losses through the following key activities.

In support of homeowners who were current on their loans, we began offering expanded refinance options through Refi Plus^{tm}, which permitted over 300,000 borrowers to reduce their monthly mortgage payments by an average of $153, and we began offering borrowers refinancing under the Home Affordable

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Refinance Program (HARP) an opportunity to benefit from lower levels of mortgage insurance and higher LTV ratios than what would have been allowed under our traditional standards.

We strengthened our credit loss management operations by adding 214 new full-time employees and a substantial number of contractors, and by hiring an Executive Vice President Credit Portfolio Management. We also added 82 new full-time employees to strengthen our REO sales capabilities.

We developed and deployed new loss mitigation techniques, including through our activities under the Home Affordable Modification Program (HAMP), to expand the options available to servicers to manage delinquencies and minimize losses.

We have worked with some of our servicers to establish high-touch servicing protocols designed for managing seriously delinquent loans, and we are working to increase the number of loans that are serviced using these high-touch protocols.

We introduced new lease options that permit tenants and defaulting homeowners to continue living for a period in properties that we obtain through foreclosure or deed-in-lieu of foreclosure.

As delinquencies have increased, we have accordingly increased our reviews of delinquent loans to uncover loans that do not meet our underwriting and eligibility requirements. As a result, we have increased the number of demands we make for lenders to repurchase these loans or compensate us for losses sustained on the loans, as well as requests for repurchase or compensation for loans for which the mortgage insurer rescinds coverage.

The actions we have taken to stabilize the housing market and minimize our credit losses have had and will continue to have, at least in the short term, a material adverse effect on our results of operations and financial condition, including our net worth. See MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae for information on our impairments and fair value losses on loans that entered trial modifications under HAMP during 2009. These actions have been undertaken with the goal of reducing our future credit losses below what they otherwise would have been. It is difficult to predict how effective these actions ultimately will be in reducing our credit losses and, in the future, it may be difficult to measure the impact our actions ultimately have on our credit losses.

Credit Performance

The comparative credit performance data for the mortgage loans in our single-family guaranty book of business presented in Table 1 for each quarter of 2009 illustrates the continued deterioration in the credit quality of our overall single-family guaranty book of business and the financial impact of this deterioration. We also provide summarized data on our loan workout efforts to keep people in their homes and prevent foreclosures.

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

	2009					2008
	Full Year	Q4	Q3	Q2	Q1	Full Year
	(Dollars in millions)					
As of the end of each period:						
Serious delinquency rate[2]	5.38%	5.38%	4.72%	3.94%	3.15%	2.42%
Nonperforming loans[3]	$ 215,505	$ 215,505	$ 197,415	$ 170,483	$ 144,523	$ 118,912
Foreclosed property inventory (number of properties)	86,155	86,155	72,275	62,615	62,371	63,538
Combined loss reserves[4]	$ 62,848	$ 62,848	$ 64,724	$ 54,152	$ 41,082	$ 24,649
During the period:						
Foreclosed property acquisitions (number of properties)[5]	145,617	47,189	40,959	32,095	25,374	94,652
Single-family credit-related expenses[6]	$ 71,320	$ 10,943	$ 21,656	$ 18,391	$ 20,330	$ 29,725
Single-family credit losses[7]	$ 13,362	$ 3,976	$ 3,620	$ 3,301	$ 2,465	$ 6,467
Loan workout activity (number of loans):						
Total home retention loan workouts[8]	160,722	49,871	37,431	33,098	40,322	112,247
Preforeclosure sales and deeds-in-lieu of foreclosure	39,617	13,459	11,827	8,360	5,971	11,696
Total loan workouts	200,339	63,330	49,258	41,458	46,293	123,943
Total loan workouts as a percentage of delinquent loans in our single-family guaranty book of business[9]	12.24%	15.48%	12.98%	12.42%	16.12%	11.32%

(1) Our single-family guaranty book of business consists of (a) single-family mortgage loans held in our mortgage portfolio, (b) single-family Fannie Mae MBS held in our mortgage portfolio, (c) single-family Fannie Mae MBS held by third parties, and (d) 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 investment portfolio for which we do not provide a guaranty.

(2) Calculated based on the number of conventional single-family loans that are three or more months past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our conventional single-family guaranty book of business. We include all of the conventional single-family 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 and HomeSaver Advance first-lien loans that are on accrual status. 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 two months or more past due.

(4) Consists of the allowance for loan losses for loans held for investment in our mortgage portfolio and the reserve for guaranty losses related to both single-family loans backing Fannie Mae MBS and single-family loans that we have guaranteed under long-term standby commitments.

(5) Includes acquisitions through deeds-in-lieu of foreclosure.

(6) Consists of the provision for credit losses and foreclosed property expense.

(7) 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 and HomeSaver Advance loans.

(8) Consists of (a) modifications, which do not include trial modifications under the Home Affordable Modification Program, as well as repayment plans and forbearances that have been initiated but not completed; (b) repayment plans and forbearances completed and (c) HomeSaver Advance first-lien loans. See Table 46: Statistics on Single-Family Loan Workouts in MD&A Risk Management Credit Risk Management for additional information on our various types of loan workouts.

(9) 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.

Table 1 does not include information about trial modifications under HAMP that have not yet become permanent modifications or repayment and forbearance plans that have been initiated but not completed. As of December 31, 2009, 291,053 of our loans were in trial modification periods under HAMP, as reported by servicers to the system of record for the program.

Our single-family serious delinquency rate of 5.38% as of December 31, 2009 was more than double the rate of 2.42% at the end of 2008. In addition, our seriously delinquent loan population aged significantly during 2009. The increase in delinquencies during 2009 was primarily driven by the duration and depth of the decline in home prices and the rise in unemployment and underemployment among borrowers. These factors adversely affected not only higher risk loan categories, but also loans traditionally considered to have a lower risk of default, such as loans with lower original LTV ratios and higher FICO credit scores, fixed-rate mortgages and loans past the peak default period of two to six years. Certain loan categories, however, continued to contribute disproportionately to the increase in our nonperforming loans and credit losses in 2009. These categories include: loans on properties in certain Midwest states, California, Florida, Arizona and Nevada; loans originated in 2006 and 2007; and loans related to higher-risk product types, such as Alt-A loans. The duration and depth of the decline in home prices and the rise in unemployment also contributed to the aging of our seriously delinquent loan population. In addition, our foreclosure prevention efforts have, by design, contributed to the rise in and aging of our delinquencies as we have delayed some foreclosure proceedings until the borrower has been sufficiently considered for a home retention solution.

The decline in home prices has made it more difficult for delinquent borrowers to sell their homes and resolve all their mortgage delinquencies. Approximately 14% of the loans in our guaranty book of business had mark-to-market LTV ratios of 100% or greater at the end of 2009, compared with approximately 12% at the end of 2008. As a result of the decline in home prices, our average credit loss severity, and average initial charge-off per default, increased during 2009.

The substantial increase in our loss reserves at December 31, 2009 compared with the prior year was driven by further deterioration of our credit book and reflects our estimate of the losses inherent in our guaranty book of business as of the end of each period. Higher provisions for credit losses, through which we maintain appropriate loss reserves, were the major driver of the $73.5 billion in credit-related expenses we recognized in 2009, compared with the $29.8 billion we recognized in 2008. Our loss reserve coverage to total nonperforming loans increased to 29.98% as of December 31, 2009, from 20.76% as of December 31, 2008.

We experienced a significant increase in our credit losses in 2009; however, the level of our credit losses was substantially lower than our credit-related expenses, due in part to the delays in foreclosures (that is, charge-offs) resulting from our home retention efforts, as well as new laws enacted in a number of states that lengthen the time required to complete a foreclosure. Our credit losses totaled $13.6 billion in 2009, compared with credit losses of $6.5 billion in 2008. Our credit-related expenses, which consist of our provision for credit losses and our foreclosed property expense, are included in our consolidated statement of operations. Our credit losses, by contrast, are not defined within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. We measure our credit losses as our charge-offs, net of recoveries plus our foreclosed property expense, adjusted to eliminate the impact associated with our HomeSaver Advance loans and our acquisition of credit-impaired loans from MBS trusts, in the manner described in MD&A Consolidated Results of Operations Credit-Related Expenses Credit Loss Performance Metrics.

Although our combined loss reserves increased significantly in 2009 compared with 2008, we did not add to our combined loss reserves in the fourth quarter of 2009. The slight decline in our loss reserves as of December 31, 2009 compared with September 30, 2009 was due to a moderation in the pace at which loans transitioned to seriously delinquent status and an improvement in our loss severities due to stabilizing home prices as well as an increase in the number of loans acquired from our MBS trusts in order to complete workouts for the loans. To the extent that the acquisition cost of these loans exceeded the estimated fair value, we recorded a fair value loss charge-off against the Reserve for guaranty losses. Recognizing these fair value losses, which typically meet or exceed the actual credit losses we ultimately realize, has the effect of reducing the inherent losses that remain in our guaranty book of business, and consequently reduces our combined loss reserves. With the adoption of new accounting standards on January 1, 2010, we will no longer recognize the acquisition of loans from the MBS trusts that we have consolidated as a purchase with an associated fair value loss for the difference between the fair value of the acquired loan and its acquisition cost, as these loans will already be reflected on our consolidated balance sheet.

Current market and economic conditions have adversely affected the liquidity and financial condition of many of our institutional counterparties, particularly mortgage insurers, which has significantly increased the risk to our business of defaults by these counterparties due to bankruptcy or receivership, lack of liquidity, insufficient capital, operational failure or other reasons. See MD&A Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management for more information about our institutional counterparty credit risk.

Homeowner Assistance Initiatives

In 2009, as the weak economy, home price declines and rising unemployment led to a substantial increase in the population of distressed borrowers, we devoted significant resources to a variety of foreclosure prevention and refinance programs. These programs are consistent with our mission of keeping people in their homes and providing liquidity and affordability to the market.

Our homeowner assistance initiatives can be grouped broadly into three categories: (1) initiatives designed to increase the number of borrowers eligible for mortgage refinances; (2) home retention strategies, including loan modifications, repayment plans and forbearances, and HomeSaver Advance loans, which are described below; and (3) foreclosure alternatives, including preforeclosure sales and deeds-in-lieu of foreclosure. Our initiatives to increase the number of borrowers eligible to refinance their mortgages help borrowers obtain a monthly payment that is more affordable now and into the future or a more stable loan product, such as a fixed-rate mortgage loan in lieu of an adjustable-rate mortgage loan. Our home retention strategies and foreclosure alternatives are intended to help borrowers who have been affected by the challenging housing and economic environment stay in their homes or, for borrowers who are unable or unwilling to stay in their homes, avoid the pressure and stigma associated with a foreclosure. Additionally, sustainable home retention workouts and foreclosure alternative strategies are designed to lead to an overall reduction in our credit losses. Specifically, sustainable home retention workouts reduce defaults that would have otherwise occurred in our guaranty book, thereby reducing costly foreclosure losses. Foreclosure alternative strategies, while not avoiding a borrower default, reduce the severity of the loss that we suffer from the default.

During 2009, our homeowner assistance efforts were principally focused on the Making Home Affordable Program, including HAMP and HARP, details of which were first announced by the Obama Administration in March 2009. For more information on these programs, please see Making Home Affordable Program. In our instructions to the servicers who service our loans, we require that all problem loans first be evaluated under HAMP before being considered for other workout alternatives. If it is determined that a borrower in default is not eligible for modification under HAMP, our servicers are required to exhaust all other workout alternatives before proceeding to foreclosure.

Refinance Programs

We experienced a significant increase in our single-family refinancing volume in 2009 relative to 2008, primarily due to a sustained decline in mortgage rates to record or near-record lows. We acquired or guaranteed approximately 2,484,000 loans that were refinancings in 2009, a 60% increase over 2008. Our refinancing volume includes approximately 329,000 loans refinanced through our Refi Plus initiatives, which provide refinance solutions for eligible Fannie Mae loans, of which approximately 104,000 loans were refinanced under HARP. On average, borrowers who refinanced during 2009 through our Refi Plus initiatives reduced their monthly mortgage payments by $153. In addition, borrowers refinancing under HARP were able to benefit from lower levels of mortgage insurance and higher LTV ratios than what would have been allowed under our traditional standards.

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Home Retention Strategies

In 2009, we completed home retention workouts for over 160,000 loans with an aggregate unpaid principal balance of $27.7 billion. On a loan count basis, this represented a 43% increase over home retention workouts completed in 2008. Loan modifications were the most significant driver of the increase in home retention workouts from 2008 to 2009 as we experienced a shift in our approach to workouts to address the increasing number of borrowers facing long-term, rather than short-term, financial hardships. Our loan modifications in 2009 targeted permanent changes to loan terms to further increase the likelihood of long-term home retention, in contrast to HomeSaver Advance Loans, which are unsecured personal loans in the amount of past due payments on a borrower s mortgage loan used to bring the mortgage loan current. We provided fewer HomeSaver Advance loans in 2009 than in 2008.

Not counting trial modifications under HAMP, in 2009 we completed approximately 99,000 loan modifications, an increase of 195% over 2008. Loan modifications represented 61% of home retention workouts completed in 2009 compared with 30% in 2008.

In 2009, the characteristics of our modifications changed notably, with 93% of modifications involving term extensions, interest rate reductions, or a combination of both, compared with 57% in 2008. As a result, approximately 58% of modifications completed in 2009 resulted in a reduction in initial monthly payments of greater than 20%, compared with 13% for modifications completed in 2008. This level of payment reduction should provide valuable assistance to borrowers in sustaining home ownership and, in turn, should help us reduce borrower defaults, which are costly for us.

Our modification statistics do not include HAMP trial modifications until they become permanent modifications. HAMP was our primary loan modification program in 2009; however, many of the trial modifications entered into during 2009 have not yet converted to a permanent modification solution due to the fact that the trial period is still underway or the trial period has been extended for servicers to obtain documents and perform final modification underwriting. A borrower receives payment relief during the HAMP trial period to the extent that the borrower pays according to the trial modification plan. While HAMP is the first home retention workout that servicers must consider for borrowers, we continued to complete modifications for those borrowers who did not qualify for HAMP, with the vast majority of our modifications in 2009 completed through our standard modification approaches. Including HAMP trials entered into during 2009, our HAMP efforts represented the vast majority of our total foreclosure prevention actions. As of December 31, 2009, 291,053 of our loans were in trial modification periods under HAMP, as reported by servicers to the system of record for the program. The number of our HAMP trials increased substantially in the third and fourth quarters of 2009, and we expect our permanent HAMP modifications to increase significantly as trial periods are completed and permanent modification offers are extended. However, it is difficult to predict how many trial modifications for our loans under HAMP will ultimately convert to permanent loan modifications.

Foreclosure Alternatives

If we are unable to provide a viable home retention option through HAMP or other programs, we may offer foreclosure alternatives, including preforeclosure sales and deeds-in-lieu of foreclosure. In 2009, our total volume of preforeclosure sales and deeds-in-lieu of foreclosures increased by 239% to approximately 40,000 in 2009 compared with approximately 12,000 in 2008. We have increasingly relied on foreclosure alternatives, primarily preforeclosure sales and deeds-in-lieu of foreclosure, as a growing number of borrowers have faced longer-term economic hardships that cannot be solved through a home retention solution.

Providing Mortgage Market Liquidity

In 2009, we purchased or guaranteed an estimated $823.6 billion in new business, measured by unpaid principal balance, which included financing for approximately 3,125,000 conventional single-family loans and approximately 372,000 multifamily units. The $823.6 billion in new single-family and multifamily business in 2009 consisted of $496.0 billion in Fannie Mae MBS acquired by third parties, and $327.6 billion in mortgage loans and mortgage-related securities that we purchased for our mortgage investment portfolio.

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Our mortgage credit book of business which consists of the mortgage loans and mortgage-related securities we hold in our investment portfolio, Fannie Mae MBS held by third parties and other credit enhancements that we provide on mortgage assets totaled $3.2 trillion as of September 30, 2009, which represented approximately 27.5% of U.S. residential mortgage debt outstanding on September 30, 2009, the latest date for which the Federal Reserve has estimated U.S. residential mortgage debt outstanding. Our estimated market share of new single-family mortgage-related securities issuances was 38.9% in the fourth quarter of 2009 and 46.3% for the full year, making us the largest single issuer of mortgage-related securities in the secondary market in both periods. In comparison, our estimated market share of new single-family mortgage-related securities issuances was 44.0% in the third quarter of 2009, and 41.7% a year ago in the fourth quarter of 2008. Our estimated market share for 2009 of 46.3% includes $94.6 billion of whole loans held for investment in our mortgage portfolio that were securitized into Fannie Mae MBS in the second quarter, but retained in our mortgage portfolio and consolidated on our consolidated balance sheets. If we exclude these Fannie Mae MBS from the estimation of our market share, our estimated 2009 market share of new single-family mortgage-related securities issuances was 43.2%, still high enough to make us the largest single issuer of mortgage-related securities in the secondary market in 2009. Our market share remained high during 2009, primarily due to the dramatic curtailment of issuances of private-label securities since the end of 2007.

We remain a constant source of liquidity in the multifamily market and we have been successful with our goal of expanding our multifamily MBS business and broadening our multifamily investor base. Approximately 81% of our total multifamily production in 2009 was an MBS execution, compared with 17% in 2008.

In addition to purchasing and guaranteeing mortgage assets, we are taking a variety of other actions to provide liquidity to the mortgage market. These actions include whole loan conduit activities, early funding activities, dollar roll transactions, and REMICs and other structured securitizations, which we describe in Business Segments Capital Markets Group.

Liquidity

In response to the strong demand that we experienced for our debt securities during 2009, we issued a variety of non-callable and callable debt securities in a wide range of maturities to achieve cost-efficient funding and to strengthen our debt maturity profile. In particular, we issued a significant amount of long-term debt during this period, which we then used to repay maturing debt and prepay more expensive long-term debt. As a result, as of December 31, 2009, our outstanding short-term debt, based on its original contractual maturity, decreased as a percentage of our total outstanding debt to 26% from 38% as of December 31, 2008. In addition, the weighted-average interest rate on our long-term debt (excluding debt from consolidations) based on its original contractual maturity, decreased to 3.71% as of December 31, 2009 from 4.66% as of December 31, 2008.

We believe that our ready access to long-term debt funding during 2009 has been primarily due to the actions taken by the federal government to support us and the financial markets. Accordingly, 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 increase our roll-over risk and 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, results of operations and ability to continue as a going concern. Demand for our debt securities could decline in the future, as the Federal Reserve concludes its agency debt and MBS purchase programs during the first quarter of 2010, or for other reasons. Despite the expiration of the credit facility we had with Treasury and a Treasury MBS purchase program, as well as the scheduled expiration of the Federal Reserve s program to purchase agency MBS and debt, as of the date of this filing, demand for our long-term debt securities continues to be strong.

See MD&A Liquidity and Capital Management Liquidity Management for more information on our debt funding activities and Risk Factors for a discussion of the risks to our business posed by our reliance on the issuance of debt securities to fund our operations.

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Outlook

Overall Housing and Mortgage Market Conditions. Although the financial markets have begun to recover, they remain weak on a historical basis. We expect this weakness in the real estate financial markets to continue in 2010. We expect home sales to slow somewhat in the coming months from the fourth quarter 2009 pace; however, the expanded homebuyer tax credit, combined with historically low mortgage rates, should support a strong sales pace through the first half of 2010 before slowing somewhat in the second half. We also expect home sales to start a longer term growth path by the end of 2010, if the labor market shows improvement. The continued deterioration in the performance of outstanding mortgages, however, will result in the foreclosure of troubled loans, which is likely to add to the excess housing inventory. If, as we expect, interest rates rise modestly, the pace at which the excess inventory is absorbed will decline.

We expect heightened default and severity rates to continue during 2010, and home prices, particularly in some geographic areas, may decline further. All of these conditions may worsen if the increase in the unemployment rate exceeds current expectations on either a national or regional basis. We continue to expect further increases in the level of foreclosures and single-family delinquency in 2010, as well as in the level of multifamily defaults and loss severity. We expect the decline in residential mortgage debt outstanding to continue through 2010, which would mark three consecutive annual declines. Approximately 80% of our single-family business in 2009 consisted of refinancings. We expect a decline in total originations as well as a potential shift of the market away from refinance activity during 2010, to have a significant adverse impact on our business volumes.

Home Price Declines: Home prices declined approximately 2.2% in 2009, following a decline of approximately 10% in 2008. We expect home prices to stabilize in 2010 and that the peak-to-trough home price decline on a national basis will range between 17% to 24%. These estimates 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 declines. These estimates also contain significant inherent uncertainty in the current market environment regarding a variety of critical assumptions we make when formulating these estimates, including: the effect of actions the federal government has taken and may take with respect to national economic recovery; the impact of the end of the Federal Reserve s MBS purchase program; and the impact of those actions on home prices, unemployment and the general economic and interest rate environment. Because of these uncertainties, the actual home price decline we experience may differ significantly from these estimates. We also expect significant regional variation in home price declines.

Our 17% to 24% peak-to-trough home price decline estimate compares with an approximately 32% to 40% peak-to-trough decline using the S&P/Case-Shiller index method. Our estimates differ from the S&P/Case-Shiller index in two principal ways: (1) our estimates weight expectations for each individual property by number of properties, whereas the S&P/Case-Shiller index weights expectations of home price declines based on property value, causing declines in home prices on higher priced homes to have a greater effect on the overall result; and (2) our estimates do not include known sales of foreclosed homes because we believe that differing maintenance practices and the forced nature of the sales make foreclosed home prices less representative of market values, whereas the S&P/Case-Shiller index includes sales of foreclosed homes. The S&P/Case-Shiller comparison numbers shown above are calculated using our models and assumptions, but modified to use these two factors (weighting of expectations based on property value and the inclusion of foreclosed property sales). In addition to these differences, our estimates are based on our own internally available data combined with publicly available data, and are therefore based on data collected nationwide, whereas the S&P/Case-Shiller index is based only on publicly available data, which may be limited in certain geographic areas of the country. Our comparative calculations to the S&P/Case-Shiller index provided above are not modified to account for this data pool difference.

Credit-Related Expenses. Our credit-related expenses in 2009 were more than double our credit-related expenses in 2008. We expect that our credit-related expenses will remain high in 2010, as we believe that the level of our nonperforming loans will remain elevated for a period of time. Absent further significant economic deterioration, however, we anticipate that our credit-related expenses will be lower in 2010 than in 2009. Our expectation is based on several factors, including (1) the slow-down in the rate of increase in average loss severities as home price declines have begun to moderate and stabilize in some regions, (2) our current expectation that, as 2010 progresses, credit deterioration will continue at a slower pace, coupled with an increase in the pace of foreclosures and problem loan workouts, and result in a slower rate of increase in delinquencies, and (3) our January 1, 2010 adoption of new accounting standards as a result of which we will no longer recognize the acquisition of loans from the MBS trusts that we have consolidated as a purchase with an associated fair value loss for the difference between the fair value of the acquired loan and its acquisition cost, as these loans will already be reflected on our consolidated balance sheet. As a result, we expect a reduction in our provision for credit losses.

Credit Losses. We expect that our credit losses will continue to increase during 2010 as a result of anticipated continued high unemployment and overall economic weakness, which will contribute to an expected increase in our charge-offs as we pursue foreclosure alternatives and foreclosures on seriously delinquent loans for which we are not able to provide a sustainable home retention workout solution.

Future Losses and Preferred Stock Dividends. We expect to continue to have losses on our guaranty book of business in response to the dual stresses of high unemployment and the extent and duration of the decline in home prices. Given our expectations regarding future losses and future draws from Treasury, we do not expect to earn profits in excess of our annual dividend obligation to Treasury for the indefinite future.

Uncertainty Regarding our Future Status and Long-Term Financial Sustainability. We expect that the actions we take to stabilize the housing market and minimize our credit losses will continue to have, in the short term at least, a material adverse effect on our results of operations and financial condition, including our net worth. Although Treasury s additional funds under the senior preferred stock purchase agreement permit us to remain solvent and avoid receivership, the resulting dividend payments are substantial and will increase as we request additional funds from Treasury under the senior preferred stock purchase agreement. As a result of these factors, along with current and expected market and economic conditions and the deterioration in our single-family and multifamily books of business, there is significant uncertainty as to our long-term financial sustainability. We expect that, for the indefinite future, the earnings of the company, if any, will not be sufficient to pay the dividends on the senior preferred stock. As a result, dividend payments will be effectively paid from funds drawn from the 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, credit losses and credit loss ratio to vary significantly from our current expectations. In addition, there is uncertainty regarding the future of our business after the conservatorship is terminated, including whether we will continue in our current form, and we expect this uncertainty to continue. In announcing the December 24, 2009 amendments to the senior preferred stock purchase agreement and to Treasury s preferred stock purchase agreement with Freddie Mac, Treasury noted that the amendments should leave no uncertainty about the Treasury s commitment to support [Fannie Mae and Freddie Mac] as they continue to play a vital role in the housing market during this current crisis. On February 1, 2010, the Obama Administration stated in its fiscal year 2011 budget proposal that it was continuing to monitor the situation of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (the GSEs) and would continue to provide updates on considerations for longer-term reform of Fannie Mae and Freddie Mac as appropriate. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding longer-term reform of the GSEs. Please see GSE Reform and Pending Legislation for a discussion of legislation being considered that could affect our business, including a list of possible reform options for the GSEs.

MORTGAGE SECURITIZATIONS

We support market liquidity by securitizing mortgage loans, which means we place loans in a trust and Fannie Mae MBS backed by the mortgage loans are then issued. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates and, in return for this guaranty, we receive guaranty fees.

Below we discuss (1) two broad categories of securitization transactions: lender swaps and portfolio securitizations; (2) features of our MBS trusts; (3) circumstances under which we purchase loans from MBS trusts; and (4) single-class and multi-class Fannie Mae MBS.

Lender Swaps and Portfolio Securitizations

Our securitization transactions primarily fall within two broad categories: lender swap transactions and portfolio securitizations.

Our most common type of securitization transaction is our lender swap transaction. Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust that is established for the sole purpose of holding the mortgage loans separate and apart from our assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as the fee for providing our guaranty. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

In contrast to our lender swap securitizations, in which lenders deliver pools of mortgage loans to us that we immediately place in a trust for securitization, our portfolio securitization transactions involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our mortgage portfolio. We currently securitize a majority of the single-family mortgage loans we purchase.

MBS Trusts

We serve as trustee for our MBS trusts, each of which is established for the sole purpose of holding mortgage loans separate and apart from our assets. Our MBS trusts hold either single-family or multifamily mortgage loans. Each trust operates in accordance with a trust agreement or a trust indenture. An MBS trust is also governed by an issue supplement documenting the formation of that MBS trust and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are the trust documents that govern an individual MBS trust.

In January 2009, we established a new multifamily master trust agreement that governs our multifamily MBS trusts formed on or after February 1, 2009 and amended and restated our previous 2007 master trust agreement to (1) establish specific criteria for the segregation and maintenance by our mortgage loan servicers of collateral reserve accounts, (2) provide greater flexibility in dealing with defaulted mortgage loans held in an MBS trust, and (3) make changes to our multifamily MBS trusts to conform with our single-family MBS trusts.

In 2008, we established a new single-family master trust agreement that governs our single-family MBS trusts formed on or after January 1, 2009 and amended and restated our previous single-family master trust agreement, also effective January 1, 2009. These changes are intended to facilitate the workout process on mortgage loans included in trusts governed by these trust documents.

Purchases of Loans from our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest. We generally purchase from the MBS trust any loan that we intend to modify prior to the time that the modification becomes effective.

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

With the adoption of new accounting standards on January 1, 2010, we will no longer recognize the acquisition of loans from the MBS trusts that we have consolidated as a purchase with an associated fair value loss for the difference between the fair value of the acquired loan and its acquisition cost, as these loans will already be reflected on our consolidated balance sheet. Currently, the cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our portfolio is less than the cost of advancing delinquent payments to security holders. In light of these factors, on February 10, 2010, we announced that we expect to significantly increase our purchases of delinquent loans from single-family MBS trusts. We will begin purchasing these loans in March 2010. We expect to purchase a significant portion of the current delinquent population within a few months period subject to market, servicer capacity, and other constraints, including the limit on mortgage assets that we may own pursuant to the preferred stock purchase agreement described in Conservatorship and Treasury Agreements Treasury Agreements Covenants under Treasury Agreements. As of December 31, 2009, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent four or more months was approximately $127 billion. We will continue to review the economics of purchasing loans that are four or more months delinquent in the future and may reevaluate our delinquent loan purchase practices and alter them if circumstances warrant.

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

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS where the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including REMICs, where the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents a beneficial ownership interest in a separate portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes expire, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the terms of the securities structures. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

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BUSINESS SEGMENTS

We have three business segments for management reporting purposes: Single-Family Credit Guaranty, Housing and Community Development, and Capital Markets. Our business segments engage in complementary business activities in pursuing our mission of providing liquidity, stability and affordability to the U.S. housing market. These activities are summarized in the table below and described in more detail following this table. We also summarize in the table below the key sources of revenue for each of our segments and the primary expenses. See MD&A Business Segment Results and Note 15, Segment Reporting for the financial results of each of our segments and a discussion and analysis of the financial performance of each segment.

Business Segment	Primary Business Activities	Primary Revenues	Primary Expenses
Single-Family Credit Guaranty, or Single-Family	*Mortgage securitizations:* Works with our lender customers to securitize single-family mortgage loans delivered to us by lenders into Fannie Mae MBS, which we refer to as lender swap transactions *Mortgage acquisitions:* Works with our Capital Markets group to facilitate the purchase of single-family mortgage loans for our mortgage portfolio *Credit risk management:* Prices and manages the credit risk on loans in our single-family guaranty book of business *Credit loss management:* Works to prevent foreclosures and reduce costs of defaulted loans through foreclosure alternatives including through our role in the Making Home Affordable Program, through management of real-estate owned, or REO, we acquire upon foreclosure or through a deed-in-lieu of foreclosure, and through lender repurchase evaluations	*Guaranty fees:* Compensation for assuming and managing the credit risk on our single-family guaranty book of business *Trust management income:* Derived from the interest earned on cash flows between the date of remittance of mortgage payments to us by servicers and the date of distribution of these payments to MBS certificateholders *Fee and other income:* Compensation received for providing lender services	*Credit-related expenses.* Consists of provision for credit losses and foreclosed property expense on loans underlying our single-family guaranty book of business *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with the Single-Family Credit Guaranty business operations

Business Segment	Primary Business Activities	Primary Revenues	Primary Expenses
Housing and Community Development Business, or HCD	*Mortgage securitizations:* Works with our lender customers to securitize multifamily mortgage loans delivered to us by lenders into Fannie Mae MBS *Mortgage acquisitions:* Works with our Capital Markets group to facilitate the purchase of multifamily mortgage loans for our mortgage portfolio *Affordable housing investments*: Provides funding for investments in affordable multifamily rental and for-sale housing projects *Credit risk management:* Prices and manages the credit risk on loans in our multifamily guaranty book of business *Credit loss management:* Works to prevent foreclosures and reduce costs of defaulted loans through foreclosure alternatives, through management REO we acquire upon foreclosure or through a deed-in-lieu of foreclosure, and through lender repurchase evaluations.	*Guaranty fees:* Compensation for assuming and managing the credit risk on our multifamily guaranty book of business *Fee and other income*: Compensation received for multifamily transactions and bond credit enhancements	*Credit-related expenses:* Consists of provision for credit losses and foreclosed property expense on loans underlying our multifamily guaranty book of business *Net operating losses:* Generated by our affordable housing investments, net of any tax benefits generated by these investments that we are able to utilize *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our HCD business operations
Capital Markets	*Mortgage and other investments:* Purchases mortgage assets and makes investments in other non-mortgage interest-earning assets *Mortgage securitizations and other customer services:*	*Net interest income*: Generated from the difference between the interest income earned on our interest-earning assets and the interest expense associated with the debt funding those assets	*Fair value gains and losses:* Primarily consists of fair value gains and losses on derivatives and trading securities *Investment gains and losses:* Primarily consists of gains and losses on the sale

Issues structured Fannie Mae MBS for customers in exchange for a transaction fee and provides other fee-related services to our lender customers *Interest rate risk management:* Manages the interest rate risk on our portfolio by issuing a variety of debt securities in a wide range of maturities and through the use of derivatives	*Fee and other income:* Compensation received for providing structured transactions and other lender services	or securitization of mortgage assets *Other-than-temporary impairment:* Consists of impairment recognized on our investments *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Capital Markets business operations

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Single-Family Credit Guaranty Business

Our Single-Family business works with our lender customers to provide funds to the mortgage market by securitizing single-family mortgage loans into Fannie Mae MBS. Our Single-Family business issues single-class Fannie Mae MBS from pools of loans delivered to us by mortgage lenders that are placed immediately in a trust. Unlike MBS securitization transactions engaged in by our Capital Markets group, our Single-Family business securitizations are not comprised of loans from our portfolio. Our Single-Family business also works with our Capital Markets group to facilitate the purchase of single-family mortgage loans for our mortgage portfolio. Our Single-Family business has primary responsibility for pricing and managing the credit risk on our single-family guaranty book of business, which consists of single-family mortgage loans underlying Fannie Mae MBS and single-family loans held in our mortgage portfolio.

A single-family loan is secured by a property with four or fewer residential units. Our Single-Family business and Capital Markets group securitize and purchase primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first lien mortgage loans, or mortgage-related securities backed by these types of loans. We also securitize or purchase loans insured by FHA, loans guaranteed by the Department of Veterans Affairs (VA), and loans guaranteed by the Rural Development Housing and Community Facilities Program of the Department of Agriculture, manufactured housing loans, reverse mortgage loans, multifamily mortgage loans, subordinate lien mortgage loans (for example, loans secured by second liens) and other mortgage-related securities.

Revenues for our Single-Family business are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS. We also allocate guaranty fee revenues to the Single-Family business for assuming and managing the credit risk on the single-family mortgage loans held in our portfolio. The aggregate amount of single-family guaranty fees we receive or that are allocated to our Single-Family business in any period depends on the amount of single-family Fannie Mae MBS outstanding and loans held in our mortgage portfolio during the period and the applicable guaranty fee rates. The amount of Fannie Mae MBS outstanding at any time is primarily determined by the rate at which we issue new Fannie Mae MBS and by the repayment rate for the loans underlying our outstanding Fannie Mae MBS. Other factors affecting the amount of Fannie Mae MBS outstanding are the extent to which we purchase loans from our MBS trusts because of borrower defaults (with the amount of these purchases affected by the rate of borrower defaults on the loans and the extent of loan modification programs in which we engage) and the extent to which sellers and servicers repurchase loans from us upon our demand because there was a breach in the selling representations and warranties provided upon delivery of the loans. Our Single-Family business accounted for approximately 39% of our net revenues in 2009, compared with 54% in 2008 and 63% in 2007.

We describe the credit risk management process employed by our Single-Family business, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our single-family credit risk in MD&A Risk Management Credit Risk Management.

Mortgage Securitizations and Acquisitions

Our Single-Family business securitizes single-family mortgage loans and issues single-class Fannie Mae MBS, which are described above in Mortgage Securitizations Single-Class and Multi-Class Fannie Mae MBS, for our lender customers. Unlike MBS securitization transactions engaged in by our Capital Markets group, our Single-Family business engages solely in lender swap transactions, in which lenders deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these loans. We describe lender swap transactions, and how they differ from portfolio securitizations, in Mortgage Securitizations Lender Swaps and Portfolio Securitizations.

Loans from our lender customers are delivered to us through either our flow or bulk transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fee prices for a lender s future delivery of individual loans to us over a specified time period. Our bulk business generally consists of transactions in which a set of loans are delivered to us in bulk, typically with guaranty fees and other contract terms negotiated individually for each transaction.

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Mortgage Servicing

Servicing

Generally, the servicing of the mortgage loans held in our mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Typically, lenders who sell single-family mortgage loans to us service these loans for us. For loans we own or guarantee, the lender or servicer must obtain our approval before selling servicing rights to another servicer.

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

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

REO Management and Lender Repurchase Evaluations

In the event a loan defaults and we acquire a home through foreclosure or a deed-in-lieu of foreclosure, we focus on selling the home through a national network of real estate agents. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and also to stabilize neighborhoods to prevent empty homes from depressing home values. We also continue to seek non-traditional ways to sell properties, including by selling homes to cities, municipalities and other public entities, and by selling properties in bulk or through public auctions.

We also conduct post-purchase quality control file reviews to ensure that loans sold to and serviced for us meet our guidelines. If we discover violations through reviews, we issue repurchase demands to the seller and seek to collect on our repurchase claims.

Housing and Community Development Business

Our HCD business works with our lender customers to provide funds to the mortgage market by securitizing multifamily mortgage loans into Fannie Mae MBS. Our HCD business also works with our Capital Markets group to facilitate the purchase of multifamily mortgage loans for our mortgage portfolio. Multifamily mortgage loans relate to properties with five or more residential units, which may be apartment communities, cooperative properties or manufactured housing communities. Our HCD business also makes LIHTC partnership, debt and equity investments to increase the supply of affordable housing. Our HCD business has primary responsibility for pricing and managing the credit risk on our multifamily guaranty book of business, which consists of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans held in our mortgage portfolio.

Revenues for our HCD business are derived from a variety of sources, including: (1) guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio and on other mortgage-related securities; (2) transaction fees associated with the multifamily business and (3) other bond credit enhancement related fees. HCD s investments in rental housing projects eligible for LIHTC and other investments generate both tax credits and net operating losses that may reduce our federal income tax liability. Other investments in rental and for-sale housing generate revenue and losses from operations and the eventual sale of the assets. Our HCD business accounted for approximately 3% of our net revenues in 2009, compared with 3% in 2008 and 4% in 2007.

We describe the credit risk management process employed by our HCD business, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our multifamily credit risk, in MD&A Risk Management Credit Risk Management Multifamily Mortgage Credit Risk Management.

Mortgage Securitizations and Acquisitions

Our HCD business generally creates multifamily Fannie Mae MBS and acquires multifamily mortgage assets in the same manner as our Single-Family business, as described above in Single-Family Credit Guaranty Business Mortgage Securitizations and Acquisitions.

Mortgage Servicing

As with the servicing of single-family mortgages, multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. In contrast to our single-family mortgage servicers, however, many of those lenders have agreed, as part of the multifamily delegated underwriting and servicing relationship we have with these lenders, to accept loss sharing under certain defined circumstances with respect to mortgages that they have sold to us and are servicing. Thus, multifamily loss sharing obligations are an integral part of our selling and servicing relationships with multifamily lenders. Consequently, transfers of multifamily servicing rights are infrequent and are carefully monitored by us to enforce our right to approve all servicing transfers. As a seller-servicer, the lender is also responsible for evaluating the financial condition of property owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

Affordable Housing Investments

Our HCD business helps to expand the supply of affordable housing by investing in rental and for-sale housing projects. Historically, most of these investments have been LIHTC investments. Our HCD business also makes non-LIHTC debt and equity investments in rental and for-sale housing. These investments are consistent with our focus on serving communities and improving access to affordable housing. As described in Note 11, Income Taxes, we concluded that it is more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of our deferred tax assets. Therefore, we currently do not recognize in our financial statements any tax benefits associated with tax credits and net operating losses. As a result of our tax position, we did not make any new LIHTC investments in 2009 other than pursuant to commitments existing prior to 2008. In addition, we limited other new investments during 2009 due to the unfavorable real estate market conditions.

Prior to September 30, 2009, we entered into a nonbinding letter of intent to transfer equity interests in our LIHTC investments to third-party investors at a price above carrying value. This transaction was subject to the Treasury s approval under the terms of our senior preferred stock purchase agreement. In November of 2009, Treasury notified FHFA and us that it did not consent to the proposed transaction. Treasury stated the proposed sale would result in a loss of aggregate tax revenues that would be greater than the savings to the federal government from a reduction in the capital contribution obligation of Treasury to Fannie Mae under the senior preferred stock purchase agreement. Treasury further stated that withholding approval of the proposed sale afforded more protection to the taxpayers than approval would have provided.

We have continued to explore options to sell or otherwise transfer our LIHTC investments for value consistent with our mission; however, to date, we have not been successful. On February 18, 2010, FHFA informed us, by letter, of its conclusion that any sale by us of our LIHTC assets would require Treasury s consent under the senior preferred stock purchase agreement, and that FHFA had presented other options for Treasury to consider, including allowing us to pay senior preferred stock dividends by waiving the right to claim future tax benefits of the LIHTC investments. FHFA s letter further informed us that, after further consultation with the

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Treasury, we may not sell or transfer our LIHTC partnership interests and that FHFA sees no disposition options. Therefore, we no longer have both the intent and ability to sell or otherwise transfer our LIHTC investments for value. As a result, we recognized a loss of $5.0 billion during the fourth quarter of 2009 to reduce the carrying value of our LIHTC Partnership investments to zero in the consolidated financial statements. For additional information regarding our investments in LIHTC partnerships and their impact on our financial results, see MD&A Consolidated Results of Operations Losses from Partnership Investments and MD&A Off-Balance Sheet Arrangements and Variable Interest Entities.

Capital Markets

Our Capital Markets group manages our investment activity in mortgage-related assets and other interest-earning non-mortgage investments. We fund our investments primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. Our Capital Markets group has primary responsibility for managing the interest rate risk associated with our investments in mortgage assets.

The business model for our Capital Markets group continues to evolve. Our business activity is increasingly focused on making short-term use of our balance sheet rather than on long-term buy and hold strategies. As a result, our Capital Markets group increasingly works with lender customers to provide funds to the mortgage market through short-term financing and investing activities. Activities we are undertaking to provide liquidity to the mortgage market include the following:

Whole Loan Conduit. Whole loan conduit activities involve our purchase of loans principally for the purpose of securitizing them. We purchase loans from a large group of lenders and then securitize them as Fannie Mae MBS, which may then be sold to dealers and investors.

Early Funding. Lenders who deliver whole loans or pools of whole loans to us in exchange for MBS typically must wait between 30 and 45 days from the closing and settlement of the loans or pools and the issuance of the MBS. This delay may limit lenders ability to originate new loans. Under our early lender funding programs, we purchase whole loans or pools of loans on an accelerated basis, allowing lenders to receive quicker payment for the whole loans and pools, which replenishes their funds and allows them to originate more mortgage loans.

Dollar Roll Transactions. We had a significant amount of dollar roll activity in 2009 as a result of attractive implied financing costs of the dollar roll versus our funding levels and a desire to increase market liquidity. A dollar roll transaction is a commitment to purchase a mortgage-related security with a concurrent agreement to re-sell a substantially similar security at a later date or vice versa.

REMICs and Other Structured Securitizations. We issue structured Fannie Mae MBS (including REMICs), typically for our lender customers or securities dealer customers, in exchange for a transaction fee.

Securitization Activities

Our Capital Markets group is engaged in issuing both single-class and multi-class Fannie Mae MBS through both portfolio securitizations and lender swap securitizations.

Portfolio securitizations. Our Capital Markets group creates single-class and multi-class Fannie Mae MBS from mortgage-related assets held in our mortgage portfolio. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our investment portfolio.

Lender swap securitizations: Our Capital Markets group creates single-class and multi-class structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer swaps a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. Our Capital Markets group earns transaction fees for creating structured Fannie Mae MBS for third parties.

For more information about lender swaps and how they differ from portfolio securitizations, please see Mortgage Securitizations Lender Swaps and Portfolio Securitizations. For a description of single-class Fannie Mae MBS, please see Mortgage Securitizations Single-Class and Multi-Class Fannie Mae MBS.

Other Customer Services

Our Capital Markets group provides our lender customers and their affiliates with services that include offering to purchase a wide variety of mortgage assets, including non-standard mortgage loan products; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities provide a significant flow of assets for our mortgage portfolio, help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

Mortgage Asset Portfolio

Although our Capital Markets group s business activities are increasingly focused on short-term financing and investing, revenue from our Capital Markets group is derived primarily from the difference, or spread, between the interest we earn on our mortgage and non-mortgage investments and the interest we incur on the debt we issue to fund these assets. Accordingly, our Capital Markets revenues are primarily derived from our asset portfolio, which is capped under our senior preferred stock purchase agreement with Treasury at a limit that decreases each year. See Conservatorship and Treasury Agreements Treasury Agreements Covenants under Treasury Agreements for more information on the decreasing limits on the amount of mortgage assets we are permitted to hold. Our Capital Markets group also earns fee and other income on various transactions we provide as a service to our customers, which we describe below. Our Capital Markets group accounted for approximately 58% of our net revenues in 2009, compared with 43% in 2008 and 33% in 2007.

We describe the interest rate risk management process employed by our Capital Markets group, including its key strategies in managing interest rate risk and key metrics used in measuring and evaluating our interest rate risk in MD&A Risk Management Market Risk Management, Including Interest Rate Risk.

Investment and Financing Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active investor in mortgage loans and mortgage-related securities and, in particular, supports the liquidity and value of Fannie Mae MBS in a variety of market conditions.

Our Capital Markets group funds its investments primarily through the issuance of a variety of debt securities in a wide range of maturities in the domestic and international capital markets. The most active investors in our debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program. See MD&A Liquidity and Capital Management Liquidity Management for information on the composition of our outstanding debt and a discussion of our liquidity.

Our Capital Markets group s investment and financing activities are affected by market conditions and the target rates of return that we expect to earn on the equity capital underlying our investments. When we estimate that we can earn returns in excess of our targets, we generally will be an active purchaser of mortgage loans and mortgage-related securities. When potential returns are below our investment targets, we generally will be a less active purchaser, and may be a net seller, of mortgage assets. The Federal Reserve agency MBS purchase program, which we describe in Residential Mortgage Market Housing and Mortgage Market and Economic Conditions, had a significant impact on our investment activity during 2009. Our investment activities also are subject to capital requirements, contractual limitations, and other regulatory constraints, to the extent described below under Conservatorship and Treasury Agreements and Our Charter and Regulation of Our Activities.

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CONSERVATORSHIP AND TREASURY AGREEMENTS

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008, or 2008 Reform Act (together, the GSE Act). The conservatorship is a statutory process designed to preserve and conserve our assets and property, and put the company in a sound and solvent condition. Below we summarize key powers held by the conservator under the GSE Act.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue in our current form following conservatorship, or what changes to our business structure will be made during or following the conservatorship. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our business, see Risk Factors.

Powers of the Conservator under the GSE Act

Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator has since delegated specified authorities to our Board of Directors, which are described in Directors, Executive Officers and Corporate Governance Corporate Governance, and has delegated to management the authority to conduct our day-to-day operations. The conservator may take any actions it determines are necessary and appropriate to carry on our business and preserve and conserve our assets and property. The conservator s powers include the ability to transfer or sell our assets or liabilities, generally without any approval, assignment of rights or consent of any party. The GSE Act provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy our general creditors.

Disaffirmance and Repudiation of Contracts

The conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of our affairs. The GSE Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator, and specifies the liability of the conservator for disaffirming or repudiating a contract. As of February 26, 2010, the conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as conservator.

We continue to enter into and enforce contracts with third parties. In addition, we remain liable for all of our obligations relating to our outstanding debt securities and Fannie Mae MBS. The conservator has advised us that it has no intention of repudiating any guaranty obligation relating to Fannie Mae MBS because it views repudiation as incompatible with the goals of the conservatorship.

Security Interests Protected; Exercise of Rights under Qualified Financial Contracts

Notwithstanding the conservator s powers described above, the conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the GSE Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. The term qualified financial contract means any

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securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement that FHFA determines by regulation, resolution or order to be a qualified financial contract.

Avoidance of Fraudulent Transfers

The conservator may avoid, or refuse to recognize, a transfer of any property interest of Fannie Mae or of any of our debtors, and also may avoid any obligation incurred by Fannie Mae or by any debtor of Fannie Mae, if the transfer or obligation was made (1) within five years of September 6, 2008, and (2) with the intent to hinder, delay, or defraud Fannie Mae, FHFA, the conservator or, in the case of a transfer in connection with a qualified financial contract, our creditors. To the extent a transfer is avoided, the conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, unless the transfer was made for value and in good faith. These rights are superior to any rights of a trustee or any other party, other than a federal agency, under the U.S. bankruptcy code.

Management of the Company under Conservatorship

Upon our entry into conservatorship in September 2008, FHFA, as conservator, succeeded to the powers of our officers and directors. The conservator subsequently reconstituted our Board of Directors and delegated to our management and Board of Directors the authority to conduct our day-to-day operations, subject to the direction of the conservator. The conservator retains the authority to withdraw its delegations to the Board and to management at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors do not have any duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. In addition, the conservator directed the Board to consult with and obtain the approval of the conservator before taking action in specified areas, as described in Directors, Executive Officers and Corporate Governance Corporate Governance Conservatorship and Delegation of Authority to Board of Directors.

Effect of Conservatorship on Shareholders

The conservatorship has had the following adverse effects on our common and preferred shareholders:

- the rights of the shareholders are suspended during the conservatorship. Accordingly, our common shareholders do not have the ability to elect directors or to vote on other matters during the conservatorship unless the conservator delegates this authority to them;

- the conservator has eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship; and

- because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns. In a letter to the Chairmen and Ranking Members of the Congressional Banking and Financial Services Committees dated February 2, 2010, the Acting Director of FHFA stated that the focus of conservatorship is on conserving assets, minimizing corporate losses, ensuring Fannie Mae and Freddie Mac continue to serve their mission, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed. For additional information about our business strategy, please see Executive Summary Our Business Objectives and Strategy.

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, which was subsequently amended on September 26, 2008, May 6, 2009 and December 24, 2009. Unless the context indicates otherwise, references in this report to the senior preferred stock purchase agreement refer to the agreement as amended through December 24, 2009. The terms

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of the senior preferred stock purchase agreement, senior preferred stock and warrant will continue to apply to us even if we are released from the conservatorship. Please see Risk Factors for a description of the risks to our business relating to the Treasury agreements.

We also entered into a lending agreement with Treasury in September 2008 under which we were allowed to request loans from Treasury until December 31, 2009. In this report, we refer to this agreement as the Treasury credit facility. On December 24, 2009, Treasury announced that the Treasury credit facility would terminate on December 31, 2009, in accordance with its terms. We did not request any loans or borrow any amounts under the Treasury credit facility prior to its termination on December 31, 2009.

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

Senior Preferred Stock Purchase Agreement

Under the senior preferred stock purchase agreement, we issued to Treasury (1) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the senior preferred stock, with an initial liquidation preference equal to $1,000 per share (for an aggregate liquidation preference of $1.0 billion), and (2) a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We did not receive any cash proceeds from Treasury at the time the senior preferred stock or the warrant was issued.

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our consolidated balance sheet, prepared in accordance with generally accepted accounting principles (GAAP), for the applicable fiscal quarter (referred to as the deficiency amount). More specifically, the agreement provides that if the Director of FHFA determines he will be mandated by law to appoint a receiver for us, then FHFA, in its capacity as our conservator, may request that Treasury provide funds to us in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). The senior preferred stock purchase agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, FHFA (or our Chief Financial Officer if we are not under conservatorship), may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement).

On December 24, 2009, Treasury s maximum funding commitment to us under the senior preferred stock purchase agreement was increased pursuant to an amendment to the agreement. The amendment provides that the cap on Treasury s funding commitment to us under the senior preferred stock purchase agreement will increase as necessary to accommodate any net worth deficits for calendar quarters in 2010 through 2012. For any net worth deficits after December 31, 2012, Treasury s remaining funding commitment will be $124.8 billion, less any positive net worth as of December 31, 2012. In announcing the December 24, 2009 amendments to the senior preferred stock purchase agreement and to Treasury s preferred stock purchase agreement with Freddie Mac, Treasury noted that the amendments should leave no uncertainty about the Treasury s commitment to support [Fannie Mae and Freddie Mac] as they continue to play a vital role in the housing market during this current crisis. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. We discuss our net worth deficits and FHFA s requests on our behalf for funds from Treasury in Executive Summary Summary of our Financial Performance for 2009.

Under the senior preferred stock purchase agreement, beginning on March 31, 2011, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue from January 1, 2011. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury s funding commitment as then in effect, will be determined on or before December 31, 2010, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock.

The senior preferred stock purchase agreement provides that the Treasury s funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury s obligations under its funding commitment at that time, (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator s powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

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

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

Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of $1.0 billion. The stock s liquidation preference is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference. Any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are not paid in cash to Treasury or waived by Treasury will also be added to the liquidation preference. Accordingly, the aggregate liquidation preference of the senior preferred stock was $60.9 billion as of December 31, 2009 and will increase to $76.2 billion as a result of FHFA s request on our behalf for funds to eliminate our net worth deficit as of December 31, 2009.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared by our Board of Directors, out of legally available funds, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year.

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

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury s funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) 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.

Common Stock Warrant

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

Covenants under Treasury Agreements

The senior preferred stock purchase agreement and warrant contain covenants that significantly restrict our business activities and require the prior written consent of Treasury before we can take certain actions. These covenants prohibit us from:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing additional equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, other than dispositions for fair market value, except in limited circumstances including if the transaction is in the ordinary course of business and consistent with past practice;
- issuing subordinated debt; and
- entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for any of our executive officers (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

In November 2009, Treasury withheld its consent under these covenants to our proposed transfer of LIHTC investments. Please see MD&A Consolidated Results of Operations Losses from Partnership Investments for information on the resulting other-than-temporary impairment losses we recognized during the fourth quarter of 2009.

We also are subject to limits, which are described below, on the amount of mortgage assets that we may own and the total amount of our indebtedness. As a result, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain.

Mortgage Asset Limit. We are restricted in the amount of mortgage assets that we may own. The maximum allowable amount was $900 billion on December 31, 2009. Beginning on December 31, 2010 and each year thereafter, 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. Accordingly, the maximum allowable amount of mortgage assets we may own on December 31, 2010 is $810 billion. The definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of consolidation of variable interest entities. Under this definition, our mortgage assets on December 31, 2009 were $773 billion. We disclose the amount of our mortgage assets on a monthly basis under the caption Gross Mortgage Portfolio in our Monthly Summaries, which are available on our Web site and announced in a press release. In February 2010, FHFA informed Congress that it expects that any net additions to our retained mortgage portfolio would be related to the purchase of delinquent mortgages out of Fannie Mae MBS trusts. See MD&A Consolidated Balance Sheet Analysis Mortgage Investments for information on our plans to purchase delinquent loans from single-family Fannie Mae MBS trusts.

Debt Limit. We are subject to a limit on the amount of our indebtedness. Our debt limit through December 30, 2010 equals $1,080 billion. Beginning December 31, 2010, and on December 31 of each year thereafter, our debt cap that will apply through December 31 of the following year will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. The definition of indebtedness is based on the par value of each applicable loan for purposes of our debt cap. Under this definition, our indebtedness as of December 31, 2009 was $786 billion. We disclose the amount of our indebtedness on a monthly basis under the caption Total Debt Outstanding in our Monthly Summaries, which are available on our Web site and announced in a press release.

Under the terms of the senior preferred stock purchase agreement, mortgage assets and indebtedness are calculated without giving effect to changes made after May 2009 to the accounting rules governing the transfer and servicing of financial assets and the extinguishment of liabilities or similar accounting standards. Accordingly, our adoption of new accounting policies regarding consolidation and transfers of financial assets will not affect these calculations.

Effect of Treasury Agreements on Shareholders

The agreements with Treasury have materially limited the rights of our common and preferred shareholders (other than Treasury as holder of the senior preferred stock). The senior preferred stock purchase agreement and the senior preferred stock and warrant issued to Treasury pursuant to the agreement have had the following adverse effects on our common and preferred shareholders:

- the senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company;

- the senior preferred stock purchase agreement prohibits the payment of dividends on common or preferred stock (other than the senior preferred stock) without the prior written consent of Treasury; and

- the warrant provides Treasury with the right to purchase shares of our common stock equal to up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise for a nominal price, thereby substantially diluting the ownership in Fannie Mae of our common shareholders at the time of exercise. Until Treasury exercises its rights under the warrant or its right to exercise the warrant expires on September 7, 2028 without having been exercised, the holders of our common stock continue to have the risk that, as a group, they will own no more than 20.1% of the total voting power of the company. Under our charter, bylaws and applicable law, 20.1% is insufficient to control the outcome of any vote that is presented to the common shareholders. Accordingly, existing common shareholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the conservatorship ends.

As described above and in Risk Factors, the Treasury agreements also impact our business in ways that affect our common and preferred shareholders.

GSE REFORM AND PENDING LEGISLATION

GSE Reform

In June 2009, the Obama administration released a white paper on financial regulatory reform stating that Treasury and HUD would be developing recommendations on the future of the GSEs. The white paper noted that there were a number of options for the reform of Fannie Mae and Freddie Mac, including:

- returning them to their previous status as GSEs with the paired interests of maximizing returns for private shareholders and pursuing public policy home ownership goals;
- gradually winding down the GSEs operations and liquidating their assets;
- incorporating the GSEs functions into a federal agency;
- implementing a public utility model where the government regulates the GSEs profit margin, sets guaranty fees, and provides explicit backing for GSE commitments;
- converting the GSEs role to providing insurance for covered bonds; and
- dissolving Fannie Mae and Freddie Mac into many smaller companies.

On February 1, 2010 the administration stated in its 2011 budget proposal that it continues to monitor the situation of the GSEs closely and will continue to provide updates on considerations for longer-term reform of Fannie Mae and Freddie Mac as appropriate. The same day, HUD Secretary Shaun Donovan indicated that the administration would release a statement on the GSEs in the very near future.

During 2009, Congress began to hold hearings on the future status of Fannie Mae and Freddie Mac, and at least one legislative proposal relating to the future status of the GSEs was offered. We expect hearings to continue in 2010 and additional proposals to be discussed. The Chairman of the House Financial Services Committee stated in January 2010, I believe this committee will be recommending abolishing Fannie Mae and Freddie Mac in their current form and coming up with a whole new system of housing finance. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. In sum, there continues to be uncertainty regarding the future of our company, including whether we will continue in our current form after the conservatorship is terminated.

Pending Legislation

On December 11, 2009, the House of Representatives passed legislation that would significantly alter the current regulatory framework applicable to the financial services industry, with enhanced regulation of financial firms and markets. The legislation includes proposals relating to the enhanced regulation of securitization markets, changes to existing capital and liquidity requirements for financial firms, additional regulation of the over-the-counter derivatives market, stronger consumer protection regulations, requirements for the retention of credit risk by securitizers and originators of mortgage loans, regulations on compensation practices, and changes in accounting standards. The Senate may consider its own financial reform legislation in 2010. If enacted, such legislation could directly and indirectly affect many aspects of our business and that of our business partners.

In June 2009, the House of Representatives passed a bill that, among other things, would impose upon Fannie Mae and Freddie Mac a duty to develop loan products and flexible underwriting guidelines to facilitate a secondary market for energy-efficient and location-efficient mortgages. The legislation would also allow Fannie Mae and Freddie Mac additional credit toward their housing goals for purchases of energy-efficient and

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location-efficient mortgages. It is unclear what action the Senate will take on this legislation, or what impact it may have on our business if this legislation is enacted.

In addition, legislation has been enacted or is being considered in some jurisdictions that would enable lending for residential energy efficiency improvements, with loans repaid via the homeowner s real property tax bill. This structure is designed to grant lenders of energy efficiency loans the equivalent of a tax lien, giving them priority over all other liens on the property, including previously recorded first lien mortgage loans. Consequently, the legislation could increase our credit losses, impact our business volumes and limit the size of loans we acquire where these laws are in effect.

In May 2009, the House of Representatives passed a bill that, among other things, would enhance consumer protections in mortgage loan transactions, impose new servicing standards and allow for assignee liability. Similar provisions were also included in the House-passed financial regulation reform bill. If enacted, the legislation would impact our business and the overall mortgage market. However, it is unclear when, or if, the Senate will consider comparable legislation.

In March 2009, the House of Representatives passed a housing bill that, among other things, includes provisions intended to stem the rate of foreclosures by allowing bankruptcy judges to modify the terms of mortgages on principal residences for borrowers in Chapter 13 bankruptcy. Specifically, the House bill would allow bankruptcy judges to adjust interest rates, extend repayment terms and lower the outstanding principal amount to the current estimated fair value of the underlying property. If enacted, this legislation could have an adverse impact on our business. The Senate passed a similar housing bill in May 2009 that did not include comparable bankruptcy-related provisions. It is unclear when, or if, the Senate will reconsider other alternative bankruptcy-related legislation.

We cannot predict whether any legislation will be enacted and, if legislation is enacted, the prospects for the timing and content of the legislation, or the impact that any enacted legislation could have on our company or our industry.

OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Charter Act

We are a shareholder-owned corporation, originally established in 1938, organized and existing under the Federal National Mortgage Association Charter Act, as amended, which we refer to as the Charter Act or our charter. The Charter Act sets forth the activities that we are permitted to conduct, authorizes us to issue debt and equity securities, and describes our general corporate powers. The Charter Act states that our purpose is to:

- provide stability in the secondary market for residential mortgages;

- respond appropriately to the private capital market;

- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

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

It is from these sections of the Charter Act that we derive our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. In addition to the alignment of our overall strategy with these purposes, all of our business activities must be permissible under the Charter Act. Our charter authorizes us to: purchase, service, sell, lend on the security of, and otherwise deal in certain

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mortgage loans; issue debt obligations and mortgage-related securities; and do all things as are necessary or incidental to the proper management of [our] affairs and the proper conduct of [our] business.

Loan Standards

Mortgage loans we purchase or securitize must meet the following standards required by the Charter Act.

Principal Balance Limitations. Our charter permits us to purchase and securitize mortgage loans secured by either a single-family or multifamily property. Single-family conventional mortgage loans are subject to maximum original principal balance limits, known as conforming loan limits. The conforming loan limits are established each year based on the average prices of one-family residences. In 2009, the general loan limit for mortgages that finance one-family residences was $417,000, with higher limits for mortgages secured by two- to four-family residences and in certain statutorily-designated high-cost states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands) and high-cost areas (counties or county-equivalent areas) that are designated by FHFA annually up to a ceiling of 150% of our general loan limit (for example, $625,000 for a one-family residence, higher for two- to four-units and in high-cost states and territories).

Since early 2008, a series of legislative acts have increased our high-cost area loan limits for loans originated during specific timeframes. The Economic Stimulus Act of 2008 and subsequent laws set specific higher high-cost area limits covering loans originated between July 1, 2007 and December 31, 2010 and employing a ceiling of 175% of our general loan limit (for example, $729,750 for a one-family residence, higher for two- to four-units and in high-cost states and territories).

No statutory limits apply to the maximum original principal balance of multifamily mortgage loans that we purchase or securitize. In addition, the Charter Act imposes no maximum original principal balance limits on loans we purchase or securitize that are insured by FHA or guaranteed by the VA, home improvement loans, or loans secured by manufactured housing.

Loan-to-Value and Credit Enhancement Requirements. The Charter Act generally requires credit enhancement on any conventional single-family mortgage loan that we purchase or securitize if it has a loan-to-value ratio over 80% at the time of purchase. We also do not purchase or securitize second lien single-family mortgage loans when the combined loan-to-value ratio exceeds 80%, unless the second lien mortgage loan has credit enhancement in accordance with the requirements of the Charter Act. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer; (2) a seller s agreement to repurchase or replace any mortgage loan in default (for such period and under such circumstances as we may require); or (3) retention by the seller of at least a 10% participation interest in the mortgage loans. Regardless of loan-to-value ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA, home improvement loans or loans secured by manufactured housing.

Authority of U.S. Treasury to Purchase GSE Securities

Pursuant to our charter, at the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of $2.25 billion outstanding at any one time. In addition, the 2008 Reform Act amended the Charter Act to give Treasury expanded temporary authority to purchase our obligations and other securities in unlimited amounts (up to the national debt limit). This expanded authority expired on December 31, 2009. On December 24, 2009, Treasury announced that its GSE mortgage-backed securities program would end on December 31, 2009, the expiration date of its expanded temporary authority under our charter. We describe Treasury s investment in our senior preferred stock and a common stock warrant pursuant to this authority above under Conservatorship and Treasury

Agreements Treasury Agreements.

Other Charter Act Provisions

The Charter Act has the following additional provisions.

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Issuances of Our Securities. We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.

Exemptions for Our Securities. Securities we issue are exempted securities under laws administered by the SEC, except that as a result of the 2008 Reform Act, our equity securities are not treated as exempted securities for purposes of Sections 12, 13, 14 or 16 of the Securities Exchange Act of 1934 (the Exchange Act). Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. However, we are not required to file registration statements with the SEC under the Securities Act of 1933 (the Securities Act) with respect to offerings of our securities pursuant to this exemption.

Exemption from Specified Taxes. We are exempt from taxation by states, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.

Other Limitations and Requirements. We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States, including the Commonwealth of Puerto Rico, and the territories and possessions of the United States.

Regulation and Oversight of Our Activities

As a federally chartered corporation, we are subject to Congressional legislation and oversight. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. The GSE Act, as amended in 2008, establishes FHFA as an independent agency with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks (FHLBs). FHFA assumed the duties of our former regulators, OFHEO, the predecessor to FHFA, and HUD, with respect to safety and soundness and mission oversight of Fannie Mae and Freddie Mac. HUD remains our regulator with respect to fair lending matters. We reference OFHEO in this report with respect to actions taken by our safety and soundness regulator prior to the creation of FHFA on July 30, 2008. As applicable, we reference HUD in this section with respect to actions taken by our mission regulator prior to the creation of FHFA on July 30, 2008. Our regulators also include the SEC and Treasury.

GSE Act

The GSE Act provides FHFA with safety and soundness authority that is stronger than the authority that was available to OFHEO, and that is comparable to and in some respects broader than that of the federal banking agencies. Among other things, the legislation gives FHFA the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio, approve new mortgage products, and place the GSEs into conservatorship or receivership. In general, we remain subject to regulations, orders and determinations that existed prior to the enactment of the 2008 Reform Act until new ones are issued or made. Below are some key provisions of the GSE Act.

Capital. FHFA has broad authority to establish risk-based capital standards to ensure that we operate in a safe and sound manner and maintain sufficient capital and reserves. FHFA also has broad authority to increase the level of our required minimum capital and to establish capital or reserve requirements for specific products and activities, so as to ensure that we operate in a safe and sound manner. On October 9, 2008, FHFA announced that our capital requirements will not be binding during the conservatorship. We describe our capital requirements below under Capital Adequacy Requirements.

Portfolio. FHFA is required to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. On January 30, 2009, FHFA published an interim final rule adopting, as the standard for our portfolio holdings, the portfolio cap established by the senior preferred stock purchase agreement described under Treasury Agreements Covenants under Treasury Agreements, as it may be amended from time to time. The interim final rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

Products and Activities. The GSE Act requires that, with some exceptions, we must obtain FHFA s approval before initially offering a product and provide FHFA written notice before commencing a new activity. In July 2009, FHFA published an interim final rule implementing this provision. In a letter to Congress dated February 2, 2010, the Acting Director of FHFA announced that FHFA was instructing Fannie Mae and Freddie Mac not to submit requests for approval of new products under the interim final rule. The letter stated that permitting the Enterprises to engage in new products is inconsistent with the goals of conservatorship, and concluded, the Enterprises will be limited to continuing their existing core business activities and taking actions necessary to advance the goals of the conservatorship.

Conservatorship and Receivership. FHFA has authority to place us into conservatorship, based on certain specified grounds. Pursuant to this authority, FHFA placed us into conservatorship on September 6, 2008. FHFA also has authority to place us into receivership at the discretion of the Director of FHFA, based on certain specified grounds, at any time, including directly from conservatorship. Further, FHFA must place us into receivership if it determines that our liabilities have exceeded our assets for 60 days, or we have not been paying our debts as they become due for 60 days.

Affordable Housing Allocations. We are required to make annual allocations to fund government affordable housing programs, based on the dollar amount of our total new business purchases, at the rate of 4.2 basis points per dollar. FHFA must issue regulations prohibiting us from redirecting the cost of our allocations, through increased charges or fees, or decreased premiums, or in any other manner, to the originators of mortgages that we purchase or securitize. FHFA shall temporarily suspend our allocation upon finding that it is contributing or would contribute to our financial instability; is causing or would cause us to be classified as undercapitalized; or is preventing or would prevent us from successfully completing a capital restoration plan. On November 13, 2008, we received notice from FHFA that it was suspending our allocation until further notice.

Affordable Housing Goals and Duty to Serve. We discuss our affordable housing goals and our new duty to serve underserved markets below under Housing Goals and Subgoals and Duty to Serve Underserved Markets.

Executive Compensation. The GSE Act directs FHFA to prohibit us from providing unreasonable or non-comparable compensation to our executive officers. FHFA may at any time review the reasonableness and comparability of an executive officer s compensation and may require us to withhold any payment to the officer during such review.

FHFA is also authorized to prohibit or limit certain golden parachute and indemnification payments to directors, officers, and certain other parties. In January 2009, FHFA issued final regulations relating to golden parachute payments, under which FHFA may limit golden parachute payments as defined, and that set forth factors to be considered by the Director of FHFA in acting upon his authority to limit these payments.

Capital Adequacy Requirements

The GSE Act establishes capital adequacy requirements. The statutory capital framework incorporates two different quantitative assessments of capital a minimum capital requirement and a risk-based capital requirement. The minimum capital requirement is ratio-based, while the risk-based capital requirement is based on simulated stress test performance. The GSE Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as adequately capitalized. On October 9, 2008, however, FHFA announced that our existing statutory and

FHFA-directed regulatory capital requirements will not be binding during the conservatorship. FHFA has directed us, during the time we are under conservatorship, to focus on managing to a positive net worth, provided that it is not inconsistent with our mission objectives.

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FHFA has advised us that, because we are under conservatorship, we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of undercapitalized.

Minimum Capital Requirement. Under the GSE Act, we must maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital and retained earnings, as determined in accordance with GAAP. The GSE Act sets our statutory minimum capital requirement equal to the sum of:

2.50% of on-balance sheet assets;

0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and

0.45% of other off-balance sheet obligations, which may be adjusted by FHFA under certain circumstances.

FHFA retains authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities, as necessary and appropriate to ensure our safe and sound operations. For information on the amounts of our core capital and our statutory minimum capital requirement as of December 31, 2009 and 2008, see MD&A Liquidity and Capital Management Capital Management Regulatory Capital.

Risk-Based Capital Requirement. The GSE Act requires FHFA to establish risk-based capital requirements for Fannie Mae and Freddie Mac, to ensure that we operate in a safe and sound manner. Existing risk-based capital regulation ties our capital requirements to the risk in our book of business, as measured by a stress test model. The stress test simulates our financial performance over a ten-year period of severe economic conditions characterized by both extreme interest rate movements and high mortgage default rates. Simulation results indicate the amount of capital required to survive this prolonged period of economic stress without new business or active risk management action. In addition to this model-based amount, the risk-based capital requirement includes a 30% premium to cover unspecified management and operations risks.

Our total capital base is used to meet our risk-based capital requirement. The GSE Act defines total capital as the sum of our core capital plus the total allowance for loan losses and reserve for guaranty losses in connection with Fannie Mae MBS, less the specific loss allowance (that is, the allowance required on individually-impaired loans). Each quarter, our regulator runs a detailed profile of our book of business through the stress test simulation model. The model generates cash flows and financial statements to evaluate our risk and measure our capital adequacy during the ten-year stress horizon. FHFA has stated that it does not intend to report our risk-based capital level during the conservatorship.

Critical Capital Requirement. The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as critically undercapitalized. Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of:

1.25% of on-balance sheet assets;

0.25% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and

0.25% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances.

FHFA has stated that it does not intend to report our critical capital level during the conservatorship.

On January 12, 2010, FHFA (1) directed us, for loans backing Fannie Mae MBS held by third parties, to continue reporting our minimum capital requirements based on 0.45% of the unpaid principal balance and critical capital based on 0.25% of the unpaid principal balance, notwithstanding our adoption effective January 1, 2010 of new accounting standards that resulted in our recording on our consolidated balance sheet substantially all of the loans backing these Fannie Mae MBS, and (2) issued a regulatory interpretation stating that our minimum capital requirements are not automatically affected by the new accounting standards.

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Housing Goals and Subgoals and Duty to Serve Underserved Markets

Since 1993, we have been subject to housing goals, which have been set as a percentage of the total number of dwelling units underlying our total mortgage purchases, and have been intended to expand housing opportunities (1) for low- and moderate-income families, (2) in HUD-defined underserved areas, including central cities and rural areas, and (3) for low-income families in low-income areas and for very low-income families, which is referred to as special affordable housing. In addition, in 2004, HUD established three home purchase subgoals that have been expressed as percentages of the total number of mortgages we purchase that finance the purchase of single-family, owner-occupied properties located in metropolitan areas. Since 1995, we have also been required to meet a subgoal for multifamily special affordable housing that is expressed as a dollar amount. The 2008 Reform Act changed the structure of the housing goals and created a new duty for us and Freddie Mac to serve three underserved markets manufactured housing, affordable housing preservation, and rural housing beginning in 2010. The new goals structure establishes three single-family conforming purchase money mortgage goals and one conforming mortgage refinance goal. The purchase money goals target low-income families, very low-income families, and families in low-income areas. The refinance goal targets low-income families. The 2008 Reform Act also established a separate multifamily goal targeting low-income families and authorized FHFA to establish additional requirements for housing affordable to very low-income families.

On February 17, 2010, FHFA announced its proposed rule implementing the new housing goals structure for 2010 and 2011. FHFA proposed benchmark goals for the purchase of single-family purchase money mortgages as follows: 27% of our purchases of mortgage loans backed by single-family, owner-occupied properties must be affordable to low-income families; 8% of our purchases of mortgage loans backed by single-family, owner-occupied properties must be affordable to very low-income families; and 13% of our purchases of mortgage loans backed by single-family, owner-occupied properties must be in low-income areas. In addition, 25% of our purchases of refinance mortgage loans backed by single-family, owner-occupied properties must be affordable to low-income families. FHFA s proposal specifies that our performance will be measured against both these benchmarks and actual goals-qualifying shares of the primary mortgage market. We will not have failed to meet a goal if we do not meet a benchmark but our performance meets the actual share of the market.

FHFA also proposed a new multifamily goal and subgoal. Our multifamily mortgage purchases must finance at least 237,000 units affordable to low-income families and 57,000 units affordable to very low-income families.

The proposed rule makes other changes to FHFA s housing goals regulations. The proposed rule excludes private-label mortgage-related securities and REMICs from counting toward meeting our housing goals, broadens our ability to count mortgage revenue bonds, extends our ability to count loan modifications under the Making Home Affordable Program, and permits us to count jumbo conforming mortgages toward meeting our housing goals.

The proposed rule states that FHFA does not intend for [Fannie Mae] to undertake uneconomic or high-risk activities in support of the [housing] goals. Further, the fact that the Enterprises are in conservatorship should not be a justification for withdrawing support from these market segments. Under FHFA s current and proposed regulations, we report our progress toward achieving our housing goals to FHFA on a quarterly basis, and we are required to submit a report to FHFA and Congress on our performance in meeting our housing goals on an annual basis. If our efforts to meet our goals prove to be insufficient and FHFA finds that our goals were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our financial condition. The housing plan must describe the actions we will take to meet the goal in the next calendar year and be approved by FHFA. The potential penalties for failure to comply with housing plan requirements are a cease-and-desist order and civil money penalties. To the extent that we purchase higher risk loans to meet our housing goals, these purchases could contribute to future credit losses.

With respect to the underserved markets, beginning in 2010 we are required to provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for

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mortgages for very low-, low-, and moderate-income families. The 2008 Reform Act also gave FHFA the authority to set and enforce the housing goals and the duty to serve underserved markets. FHFA must promulgate regulations to implement the duty to serve underserved markets.

The 2008 Reform Act provided that the housing goals established for 2008 would remain in effect for 2009, except that FHFA was required to review the 2009 goals to determine their feasibility given market conditions and, after seeking public comment, FHFA would make appropriate adjustments to the 2009 goals. Pursuant to this requirement, in May 2009 FHFA published a proposed rule lowering our 2009 housing goals and home purchase subgoals from the 2008 levels. FHFA determined that, in light of market conditions, the previously established 2009 housing goals were not feasible unless adjusted. The adverse market conditions that FHFA took into consideration included tighter underwriting practices, the sharply increased standards of private mortgage insurers, the increased role of FHA in the marketplace, the collapse of the private-label mortgage-related securities market, increasing unemployment, multifamily market volatility and the prospect of a refinancing surge in 2009. These conditions contribute to fewer goals-qualifying mortgages available for purchase by us. The final 2009 housing goals FHFA adopted in August 2009 lowered our base goals from the levels proposed in May, adopted the home purchase subgoals as proposed, and increased our multifamily special affordable subgoal.

Our 2009 housing goals were at approximately the levels that existed in 2004 through 2006. FHFA also permitted loan modifications that we make in accordance with the Making Home Affordable Program to be treated as mortgage purchases and count towards the housing goals. Purchases of loans on single-family properties with a maximum original principal balance higher than the nationwide conforming loan limit (currently set at $417,000) are not counted toward our 2009 housing goals.

The following table presents FHFA s 2009 housing goals and subgoals and our performance against those goals and subgoals. We also present our performance against our housing goals and subgoals for 2008 and 2007. Performance results for 2009 have not yet been validated by FHFA.

Housing Goals and Subgoals Performance

	2009		2008		2007	
	Result[1]	**Goal**	**Result**	**Goal**	**Result**	**Goal**
Housing goals:[2]						
Low- and moderate-income housing	47.7%	43.0%	53.7%	56.0%	55.5%	55.0%
Underserved areas	28.8	32.0	39.4	39.0	43.4	38.0
Special affordable housing	20.8	18.0	26.4	27.0	26.8	25.0
Housing subgoals:						
Home purchase subgoals:[3]						
Low- and moderate-income housing	51.8%	40.0%	38.8%	47.0%	42.1%	47.0%
Underserved areas	31.1	30.0	30.4	34.0	33.4	33.0
Special affordable housing	23.2	14.0	13.6	18.0	15.5	18.0
Multifamily special affordable housing subgoal ($ in billions)[4]	$ 6.47	$ 6.56	$ 13.31	$ 5.49	$ 19.84	$ 5.49

(1) These results may differ from the results FHFA determines for our 2009 reporting.

(2) Goals are expressed as a percentage of the total number of dwelling units financed by eligible mortgage loan purchases during the period.

(3) Home purchase subgoals measure our performance by the number of loans (not dwelling units) providing purchase money for owner-occupied single-family housing in metropolitan areas.

(4) The multifamily subgoal is measured by loan amount and expressed as a dollar amount.

We believe we met all of our 2009 housing goals except for our underserved areas goal and our increased multifamily special affordable housing subgoal. We have requested that FHFA determine, based on economic and market conditions and our financial condition, that the underserved areas goal and the increased multifamily special affordable housing subgoal were not feasible for 2009. If FHFA makes this

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determination, there will be no enforcement action against us for failing to meet these goals. We will file our assessment of our performance against our housing goals with FHFA in mid-March, and FHFA will determine our final performance numbers.

We did not meet our low- and moderate-income housing and special affordable housing goals, or any of our home purchase subgoals, for 2008, given declining market conditions. In March 2009, FHFA notified us of its determination that achievement of these housing goals and subgoals was not feasible due to housing and economic conditions and our financial condition in 2008.

In 2007, we met each of our three housing goals and two of the four subgoals. However, we did not meet our low- and moderate-income housing and special affordable housing home purchase subgoals in 2007. In April 2008, HUD notified us of its determination that achievement of these subgoals was not feasible, primarily due to reduced housing affordability and turmoil in the mortgage market, which reduced the share of the conventional conforming primary home purchase market that would qualify for these subgoals.

See Risk Factors for a description of how changes we have made to our business strategies in order to meet our housing goals and subgoals have increased our credit losses and will adversely affect our results of operations.

MAKING HOME AFFORDABLE PROGRAM

During 2009, the Obama Administration introduced a comprehensive Financial Stability Plan to help protect and support the U.S. housing and mortgage markets and stabilize the financial markets. As part of this plan, in March 2009, the Administration announced details of Making Home Affordable, a program intended to provide assistance to homeowners and prevent foreclosures. Working with our conservator, we have devoted significant effort and resources to help distressed homeowners through initiatives that support the Making Home Affordable Program. Below we describe key aspects of the Making Home Affordable Program and our role in the program. For additional information about our activities under the program and its financial impact on us, please see Executive Summary Homeowner Assistance Initiatives and MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae.

The Making Home Affordable Program includes a Home Affordable Refinance Program (HARP), under which we acquire or guarantee loans that are refinancings of mortgage loans we own or guarantee, and Freddie Mac does the same, and a Home Affordable Modification Program (HAMP), which provides for the modification of mortgage loans owned or guaranteed by us or Freddie Mac, as well as other mortgage loans. These two programs were designed to expand the number of borrowers who can refinance or modify their mortgages to achieve a monthly payment that is more affordable now and into the future or to obtain a more stable loan product, such as a fixed-rate mortgage loan in lieu of an adjustable-rate mortgage loan.

In March 2009, we announced our participation in the Making Home Affordable Program and released guidelines for Fannie Mae sellers and servicers in offering HARP and HAMP for Fannie Mae borrowers. We also serve as program administrator under HAMP for loans we do not own or guarantee.

In an effort to expand the benefits available through the Making Home Affordable Program to more borrowers, the government announced a number of updates to the program throughout 2009. Key elements of HARP and HAMP are described below.

Home Affordable Refinance Program

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. Loans under this program are available only if the new mortgage loan either reduces the monthly principal and interest payment for the borrower or provides a more stable loan product (such as movement from an adjustable-rate mortgage to a fixed-rate mortgage loan). Other eligibility requirements that must be met under this program include the following.

Ownership. We must own or guarantee the mortgage loan being refinanced.

Unpaid Principal Balance. Upon HARP s initial implementation in April 2009, the unpaid principal balance on the mortgage loan was limited to 105% of the current value of the property covered by the mortgage. In other words, the maximum LTV ratio was 105%. In July 2009, FHFA authorized expansion of the program to permit refinancings of existing mortgage loans with an LTV of 125%.

Mortgage Insurance. Mortgage insurance for the new mortgage loan is only required if the existing loan had an original LTV ratio greater than 80% and mortgage insurance is in force on the existing loan. In that case, mortgage insurance is required only up to the coverage level on the existing loan, which may be less than our standard coverage requirements. FHFA has provided guidance that permits us to implement this feature of the program in compliance with our charter requirements for loans originated through June 10, 2010 and acquired through October 2010, and we have requested an extension of this flexibility for loans originated through June 2011 and acquired through October 2011.

New Loan Restrictions. The new mortgage loan cannot (1) be an adjustable-rate mortgage loan, or ARM, if the initial fixed period is less than five years; (2) have an interest-only feature, which permits the payment of interest without a payment of principal; (3) be a balloon mortgage loan; or (4) have the potential for negative amortization.

We made the program available for newly refinanced mortgage loans delivered to us on or after April 1, 2009. We make refinancings under HARP through our Refi Plus initiatives, which provide refinance solutions for eligible Fannie Mae loans. This program replaced the streamlined refinance options we previously offered.

Home Affordable Modification Program

HAMP is aimed at helping borrowers whose loan either is currently delinquent or is at imminent risk of default by modifying their mortgage loan to make their monthly payments more affordable. The goal is to modify a borrower s mortgage loan to target the borrower s monthly mortgage payment at 31% of the borrower s gross monthly income. The program is designed to provide a uniform, consistent structure for servicers to use in modifying mortgage loans to prevent foreclosures, including loans owned or guaranteed by Fannie Mae or Freddie Mac and other qualifying mortgage loans. We have advised our servicers that we require borrowers at risk of foreclosure who are not eligible for a loan refinance under HARP to be evaluated for eligibility under HAMP before any other workout alternative is considered. Borrowers ineligible for HAMP may be considered under other workout alternatives we provide, such as our recently introduced HomeSaver Forbearance initiative and repayment plans. We serve as the program administrator of HAMP for Treasury. The program includes the following features:

Status of Mortgage Loan. The mortgage loan must be delinquent (and may be in foreclosure) or, for loans owned or guaranteed by Fannie Mae or Freddie Mac, a payment default must be imminent. All borrowers must attest to a financial hardship.

Modifications Permitted. Servicers must apply the permitted modification terms available in the order listed below until the borrower s new monthly mortgage payment achieves the target payment ratio of 31%:

Reduction of Interest Rate. Reduce the interest rate to as low as 2% for the first five years following modification, increasing by 1% per year thereafter until it reaches the market rate at the time of modification.

Extension of Loan Term. Extend the loan term to up to 40 years.

Deferral of Principal. Defer payment of a portion of the principal of the loan, interest-free, until (1) the borrower sells the property, (2) the end of the loan term, or (3) the borrower pays off the loan, whichever occurs first.

Limits on Risk Features in Modified Mortgage Loans.

ARMs and Interest-Only Loans. If a borrower has an adjustable-rate or interest-only loan, the loan will convert to a fixed interest rate, fully amortizing loan.

Prohibition on Negative Amortization. Negative amortization is prohibited following the effective date of the modification.

Trial Period Required before Modification. Borrowers must satisfy the terms of a trial modification plan for a trial payment period, typically for at least three months. The modification will become effective upon final execution of a modification agreement following satisfactory completion of the trial period.

Preforeclosure Eligibility Evaluation. Servicers have been directed not to proceed with a foreclosure sale until the borrower has been evaluated for a modification under the program and, if eligible, has been extended an offer to participate in the program.

Incentive Payments to Servicers. For each Fannie Mae loan for which a modification is completed under HAMP, we pay the servicer (1) $1,000; (2) an additional $500 if the modified loan was current when it entered the trial period (that is, if the loan was current but a payment default was imminent); and (3) an annual pay for success fee of up to $1,000 if the modification reduces the borrower s monthly payment by 6% or more, payable for each of the first three years after the modification as long as the borrower is continuing to make the payments due under the modified loan.

Incentives to Borrowers. For a permanent modification under HAMP that reduces the borrower s monthly payment by 6% or more, we will provide the borrower an annual reduction in the outstanding principal balance of the modified loan of up to $1,000 for each of the first five years after the modification as long as the borrower is continuing to make the payments due under the modified loan.

Costs of Modifications. We bear all of the costs of modifying our loans under the program, including any additional amounts we are required to provide under our guarantees for loans owned by one of our MBS trusts during a trial payment period or any other mortgage-backed securities for which we have provided a guaranty.

HAMP expires on December 31, 2012.

Our Role as Program Administrator of HAMP

Treasury has engaged us to serve as program administrator for loans modified under HAMP that are not owned or guaranteed by us. In April 2009, Treasury released guidance to servicers for adoption and implementation of HAMP for mortgage loans that are not owned or guaranteed by us or Freddie Mac. Freddie Mac maintains guidelines for modification under the program of loans it owns or guarantees.

Our principal activities as program administrator include the following:

- Implementing the guidelines and policies of the program;
- Preparing the requisite forms, tools and training to facilitate efficient loan modifications by servicers;
- Creating, making available and managing the process for servicers to report modification activity and program performance;
- Acting as paying agent to calculate and remit subsidies and compensation consistent with program guidelines;
- Acting as record-keeper for executed loan modifications and program administration;
- Coordinating with Treasury and other parties toward achievement of the program s goals, including assisting with development and implementation of updates to the program and initiatives expanding the program s reach; and

Performing other tasks as directed by Treasury from time to time.

In our capacity as program administrator for the program, we support over 100 servicers that have signed up to offer modifications on non-agency loans under the program. To help servicers ramp up their operations to modify loans under HAMP, we have provided information and resources through a Web site dedicated to servicers under the program. We have also communicated information about the program to servicers and helped servicers implement and integrate the program with new systems and processes. Our servicer support as program administrator includes dedicating Fannie Mae personnel to participating servicers to work closely with the servicers to help them implement the program. We also have established a servicer support call center, conducted weekly conference calls with the leadership of participating servicers, and provided training through live Web seminars, recorded tutorials, checklists and job aids on the program Web site.

TREASURY HOUSING FINANCE AGENCY INITIATIVE

To assist state and local housing finance agencies (HFAs) to continue to meet their mission of providing affordable financing for both single-family and multifamily housing, in October of 2009 we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac that established terms under which we, Freddie Mac and Treasury would provide assistance to HFAs. Pursuant to this HFA initiative, we, Freddie Mac and Treasury are providing assistance to the HFAs through two primary programs: a temporary credit and liquidity facilities program, which is intended to improve the HFAs access to liquidity for outstanding HFA bonds, and a new issue bond program, which is intended to support new lending by the HFAs. Pursuant to the temporary credit and liquidity facilities program, Treasury has purchased participation interests in temporary credit and liquidity facilities provided by us and Freddie Mac to the HFAs. These facilities create a credit and liquidity backstop for the HFAs. Pursuant to the new issue bond program, Treasury has purchased new securities issued by us and Freddie Mac backed by new housing bonds issued by the HFAs. Please see Certain Relationships and Related Transactions, and Director Independence Transactions with Related Persons Transactions with Treasury Treasury Housing Finance Agency Initiative for a more detailed discussion of the HFA initiative.

OUR CUSTOMERS

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

During 2009, approximately 1,100 lenders delivered single-family mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2009, our top five lender customers, in the aggregate, accounted for approximately 62% of our single-family business volume, compared with 66% in 2008. Two lender customers, Bank of America Corporation and Wells Fargo & Company, including their respective affiliates, each accounted for more than 20% of our single-family business volume for 2009.

Due to ongoing consolidation within the mortgage industry, as well as the number of mortgage lenders that have gone out of business since late 2006, we, as well as our competitors, seek business from a decreasing number of large mortgage lenders. To the extent we become more reliant on a smaller number of lender customers, our negotiating leverage with these customers decreases, which could diminish our ability to price our products and services optimally. In addition, many of our lender customers are experiencing financial and liquidity problems that may affect the volume of business they are able to generate. We discuss these and other risks that this customer concentration poses to our business in Risk Factors.

COMPETITION

Historically, our competitors have included Freddie Mac, FHA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans), the FHLBs, financial institutions, securities dealers, insurance companies, pension funds, investment funds and other investors. During 2008, almost all of our competitors, other than Freddie Mac, FHA, Ginnie Mae and the FHLBs, ceased their activities in the residential mortgage finance business, and we remained the largest single issuer of mortgage-related securities in the secondary market in 2009.

We compete to acquire mortgage assets in the secondary market both for our investment portfolio and for securitization into Fannie Mae MBS. We also compete for the issuance of mortgage-related securities to investors. Competition in these areas is affected by many factors, including the amount of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential mortgage loans offered for sale (for example, whether the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments. Pursuant to its agency MBS purchase program, the Federal Reserve was an active and significant purchaser of our MBS during 2009, which was significant in supporting the liquidity of our MBS.

Competition to acquire mortgage assets is significantly affected by pricing and eligibility standards. In 2008 and 2009, changes in our pricing and eligibility standards and in the eligibility standards of the mortgage insurance companies reduced our acquisition of loans with higher LTV ratios and other high-risk features. In addition, FHA has become the lower-cost option, or in some cases the only option, for loans with higher LTV ratios.

Prior to the severe market downturn, there was a significant increase in the issuance of mortgage-related securities by non-agency issuers, which caused a decrease in our share of the market for new issuances of single-family mortgage-related securities from 2003 to 2006. Non-agency issuers, also referred to as private-label issuers, are those issuers of mortgage-related securities other than agency issuers Fannie Mae, Freddie Mac and Ginnie Mae. The subsequent mortgage and credit market disruption led many investors to curtail their purchases of private-label mortgage-related securities. As a result, private-label mortgage-related securities issuances were significantly curtailed. Accordingly, our market share significantly increased during 2008 and remained high in 2009. Our estimated market share of new single-family mortgage-related securities issuances was 46.3% in 2009 and 45.4% in 2008, compared with 33.9% in 2007. Our estimated market share in 2009 of 46.3% includes $94.6 billion of whole loans held for investment in our mortgage portfolio that were securitized into Fannie Mae MBS in the second quarter, but retained in our mortgage portfolio and consolidated on our consolidated balance sheets. Excluding these Fannie Mae MBS from the estimate of our market share, our estimated 2009 market share of new single-family mortgage-related securities issuances was 43.2%.

During 2009, our primary competitors for the issuance of mortgage-related securities were Ginnie Mae (which primarily guarantees mortgage-related securities backed by FHA-insured loans) and Freddie Mac. Our estimated market share of new single-family mortgage-related securities issuances was approximately 38.9% in the fourth quarter of 2009, compared with approximately 41.7% in the fourth quarter of 2008 and 48.5% in the fourth quarter of 2007. In comparison, Ginnie Mae s market share of new single-family mortgage-related securities issuances was approximately 34.5% in the fourth quarter of 2009, compared with approximately 37.8% in the fourth quarter of 2008 and 9.0% in the fourth quarter of 2007. Our estimates of market share exclude previously securitized mortgages and are based on publicly available data.

We also compete for low-cost debt funding with institutions that hold mortgage portfolios, including Freddie Mac and the FHLBs.

EMPLOYEES

As of December 31, 2009, we employed approximately 6,000 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC s Web site, www.sec.gov.

You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at (800) 237-8627 or (202) 752-7115 or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016.

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We are providing our Web site addresses and the Web site address of the SEC solely for your information. Information appearing on our Web site or on the SEC s Web site is not incorporated into this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

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

Among the forward-looking statements in this report are statements relating to:

Our belief that the weak economy and stressed housing market will continue and will adversely impact our results of operations, liquidity and financial condition in 2010;

Our expectation that adverse credit performance trends may continue into 2010;

Our expectation that we will not be able to return to long-term profitability anytime in the foreseeable future;

Our expectation that we will not earn profits in excess of our annual dividend obligation to Treasury for the indefinite future;

Our expectation that unemployment rates will decline modestly yet remain elevated throughout 2010;

Our belief that ongoing adverse conditions in the housing and mortgage markets, along with the continuing deterioration throughout our book of business and the costs associated with our efforts to assist the mortgage market pursuant to our mission, will increase the amount of funds that Treasury is required to provide to us;

Our expectation that the conservatorship and investment by Treasury will continue to have a material adverse effect on our common and preferred shareholders;

Our expectation that, due to current trends in the housing and financial markets, we will have a net worth deficit in future periods, and therefore will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement;

Our expectation that dividends and commitment fees we must pay or that accrue on Treasury s investments will increase and will have a significant adverse impact on our future financial position and net worth;

Our expectation that permanent Home Affordable Modification Program modifications will increase as trial periods are completed and permanent modification offers are extended;

Our expectation that the actions we take to stabilize the housing market and minimize our credit losses will continue to have, at least in the short term, a material adverse effect on our business, results of operations, financial condition and net worth;

Our belief that activities our regulators, other U.S. government agencies or Congress may request or require us to take to support the mortgage market and help homeowners may adversely affect our business;

Our expectation that we will no longer be able to sell or otherwise transfer, or use or otherwise realize future tax benefits from, our LIHTC investments;

Our expectation that heightened default and severity rates will continue during 2010 and that home prices, particularly in some geographic areas, may decline further;

Our expectation of further increases in the level of foreclosures and single-family delinquency rates as well as in the level of multifamily defaults and loss severity in 2010;

Our expectation that home sales will start a longer term growth path by the end of 2010;

Our expectation that home prices will stabilize in 2010 and that the peak-to-trough home price decline on a national basis will range between 17% to 24%;

Our expectation that U.S. residential single-family mortgage debt outstanding will decrease by 1.7% in 2010;

Our expectation that a decline in total originations as well as a potential shift of the market away from refinance activity during 2010 will have a significant adverse impact on our business volumes;

Our expectation that our credit-related expenses will remain high in 2010, and that our credit losses will continue to increase during 2010;

Our expectation that we will continue to have losses throughout our guaranty book of business due to high unemployment and continuing declines in home prices;

Our expectation of the ongoing uncertainty regarding the future of our business, including whether we will continue to exist in our current form after the termination of the conservatorship;

Our belief that it is likely we will not remediate the material weakness in our disclosure controls and procedures while we are under conservatorship;

Our expectation that we will experience high levels of period-to-period volatility in our results of operations and financial condition;

Our projections with respect to interest rates and any effects of those interest rate projections on our credit loss expectations;

Our expectation that we will experience periodic fluctuations in the fair value of our net assets due to our business activities and changes in market conditions;

Our belief that changes or perceived changes in the government s support of us or the financial markets could increase our roll-over risk and materially adversely affect our ability to refinance our debt as it becomes due;

Our belief that demand for our debt securities could decline, perhaps significantly, as the Federal Reserve concludes its agency debt and MBS purchase programs;

Our belief that we could use the unencumbered mortgage assets in our mortgage portfolio as a source of liquidity in the event our access to the unsecured debt market becomes impaired, by using these assets as collateral for secured borrowing;

Our expectations regarding the impact of the new consolidation accounting standards on our accounting, financial statements, financial results and net worth;

Our expectation that our acquisitions of Alt-A and subprime mortgage loans will be minimal in future periods and that the percentage of the book of business attributable to Alt-A and subprime will shrink over time;

Our expectation that the challenging mortgage and credit market conditions will likely continue to adversely affect the liquidity and financial condition of us and our institutional counterparties;

Our belief that, if our assessment of one or more of our mortgage insurer counterparty s ability to fulfill its obligations to us worsens or its credit rating is downgraded, it could result in a significant increase in our loss reserves and a significant increase in the fair value of our guaranty obligations;

Our belief that one or more of our financial guarantor counterparties may not be able to fully meet their obligations to us in the future;

Our belief that we may experience further losses relating to our derivative contracts;

Our belief that our remaining deferred tax assets related to certain available-for-sale securities we hold are recoverable;

Our belief that the credit losses we experience in future periods are likely to be larger, and perhaps substantially larger, than our current combined loss reserves;

Our expectation that we will experience additional other-than-temporary impairment writedowns of our investments in private-label mortgage-related securities, including those that continue to be AAA-rated;

Our belief that the performance of our 2008 and 2009 workouts will be highly dependent on economic factors, such as unemployment rates and home prices;

Our belief that exposure to refinancing risk may be higher for multifamily loans that are due to mature during the next several years;

Our intention to use the funds we receive from Treasury under the senior preferred stock purchase agreement to repay our debt obligations and pay dividends on the senior preferred stock;

Our belief that the amount of financing we could obtain in the event of a liquidity crisis or significant market disruption by borrowing against our mortgage-related securities is substantially lower than the amount of mortgage-related securities we hold;

Our intention to either continue to sell or allow to mature non-mortgage-related securities from time to time as market conditions permit;

Our belief that our liquidity contingency plan is unlikely to be sufficient to provide us with alternative sources of liquidity for 90 days;

Our expectation that we will experience further losses and write-downs relating to our investment securities;

Our expectation that credit deterioration will continue at a slower pace, coupled with an increase in the pace of foreclosures and problem loan workouts, and result in a slower rate of increase in delinquencies;

Our expectation that, as interest rates change, we are likely to take actions to rebalance our portfolio to manage our interest rate exposure;

Our belief that the ultimate amount of realized credit losses and realized values we receive from holding our assets and liabilities is likely to differ materially from the current estimated fair values;

Our intention to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities;

Our expectation that single-family loans we acquired in 2009 loans may have relatively slow prepayment speeds, and therefore remain in our book of business for a relatively long time, due to the historically low interest rates throughout 2009;

Our expectation that we will significantly increase our purchases of delinquent loans from single-family MBS trusts;

Our expectations regarding our new executive compensation program, including our belief that it will enable us to recruit and retain well-qualified executives; and

Descriptions of assumptions underlying or relating to any of the foregoing matters and any other statements contained in this report that are or may be forward-looking statements.

Forward-looking statements reflect our management s expectations or predictions of future conditions, events or results based on various assumptions and management s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: our ability to maintain a positive net worth; adverse effects from activities we undertake to support the mortgage market and help borrowers; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; future amendments and guidance by the FASB; changes in the structure and regulation of the financial services industry, including government efforts to bring about an economic recovery; our ability to access the debt capital markets; further disruptions in the housing, credit and stock markets; the level and volatility of interest rates and credit spreads; the adequacy of credit reserves; pending government investigations and litigation; changes in management; the accuracy of subjective estimates used in critical accounting policies; and those factors described in this report, including those factors described in Risk Factors.

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

Item 1A. Risk Factors

This section identifies specific risks that should be considered carefully in evaluating our business. The risks described in Risks Relating to Our Business are specific to us and our business, while those described in Risks Relating to Our Industry relate to the industry in which we operate. Refer to MD&A Risk Management for a more detailed description of the primary risks to our business and how we seek to manage those risks.

Any of these factors could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. However, these are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, results of operations, financial condition, liquidity and net worth.

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RISKS RELATING TO OUR BUSINESS

The future of our company following termination of the conservatorship and the timing of the conservatorship s end are uncertain.

We do not know when or how the conservatorship will be terminated or what changes to our business structure will be made during or following the termination of the conservatorship. We do not know whether we will continue to exist in the same or a similar form after conservatorship is terminated or whether the conservatorship will end in receivership or in some other manner. The Obama Administration s June 2009 white paper on financial regulatory reform stated that Treasury and HUD, in consultation with other government agencies, would engage in a wide-ranging initiative to develop recommendations on the future of the GSEs. On December 24, 2009, in announcing amendments to its senior preferred stock purchase agreements with Fannie Mae and Freddie Mac, Treasury announced that it expected to provide a preliminary report about longer term reform of the federal government s role in the housing market around the time President Obama released his fiscal 2011 budget. Treasury observed, Recent announcements on the tightening of underwriting standards by Fannie Mae, Freddie Mac, and FHA, demonstrate a commitment to prudent housing finance policy that enables a transition to an environment where the private market is able to provide a larger source of mortgage finance. In February 2010, the Administration stated that it continues to monitor the situation of the GSEs, and indicated that it would release a statement on the GSEs in the very near future. Since June 2009, Congressional committees and subcommittees have held hearings to discuss the present condition and future status of Fannie Mae and Freddie Mac and at least one legislative proposal addressing the future status of the GSEs has been offered. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. See Business GSE Reform and Pending Legislation for more information about the white paper s mention of options for reform of the GSEs and Congressional hearings about our present condition and future status.

Accordingly, there continues to be uncertainty regarding the future of Fannie Mae, including whether we will continue to exist in our current form after conservatorship is terminated. The options for reform of the GSEs include options that would result in a substantial change to our business structure or in Fannie Mae s liquidation or dissolution.