FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 05, 2010

Table of Contents

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association
(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation *(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

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

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

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

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

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

As of June 30, 2010, there were 1,117,616,288 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

MD&A TABLE REFERENCE

Table of Contents

PART I FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency (FHFA) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury (Treasury), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K) in Business Conservatorship and Treasury Agreements.

You should read this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our 2009 Form 10-K.

This report contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Our actual results may differ materially from those reflected in these forward-looking statements due to a variety of factors including, but not limited to, those described in Risk Factors and elsewhere in this report and in Risk Factors in our 2009 Form 10-K. Please review Forward-Looking Statements for more information on the forward-looking statements in this report.

You can find a Glossary of Terms Used in This Report in the MD&A of our 2009 Form 10-K.

INTRODUCTION

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 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. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market.

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.

EXECUTIVE SUMMARY

Our Mission, Objectives and Strategy

Our public mission is to support liquidity and stability in the secondary mortgage market and increase the supply of affordable housing. We are concentrating our efforts on two of our objectives: supporting liquidity, stability and affordability in the mortgage market and minimizing our credit losses from delinquent loans. Below we discuss our contributions to the liquidity of the mortgage market, the performance of the single-family loans we have acquired since January 2009, our future single-family credit losses, and our strategies and actions to reduce credit losses on our single-family loans. Please see Business Executive Summary Our Business Objectives and Strategy in our 2009 Form 10-K for more information on our business objectives, which have been approved by FHFA.

Providing Mortgage Market Liquidity

We support liquidity and stability in the secondary mortgage market, serving as a stable source of funds for purchases of homes and multifamily housing and for refinancing existing mortgages. We provide this financing through the activities of our three complementary businesses: Single-Family Credit Guaranty (Single-Family), Housing and Community Development (HCD) and Capital Markets. Our Single-Family and HCD businesses work with our lender customers to purchase and securitize mortgage loans they deliver to us into Fannie Mae MBS. Our Capital Markets group manages our investment activity in mortgage-related assets, funding investments primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. The Capital Markets group is increasingly focused on making short-term use of our balance sheet rather than on long-term buy and hold strategies and, in this role, the group works with lender customers to provide funds to the mortgage market through short-term financing, investing and other activities. These include whole loan conduit activities, early funding activities, dollar roll transactions, and Real Estate Mortgage Investment Conduit (REMIC) and other structured securitization activities, which we describe in more detail in our 2009 Form 10-K in Business Business Segments Capital Markets Group.

During the first half of 2010, we purchased or guaranteed approximately $423 billion in loans, measured by unpaid principal balance, which includes approximately $170 billion in delinquent loans we purchased from our single-family MBS trusts. Our purchases and guarantees financed approximately 1,026,000 conventional single-family loans, excluding delinquent loans purchased from our MBS trusts, and approximately 115,000 multifamily units. From January 2009 through the first half of 2010, we purchased or guaranteed an estimated $1.2 trillion in loans, measured by unpaid principal balance, which includes approximately $205 billion in delinquent loans we purchased from our single-family MBS trusts, financing approximately 4,151,000 conventional single-family loans and approximately 487,000 multifamily units.

We remained the largest single issuer of mortgage-related securities in the secondary market during the second quarter of 2010, with an estimated market share of new single-family mortgage-related securities of 39.1%, compared with 40.7% in the first quarter of 2010. If the Federal Housing Administration (FHA) continues to be the lower-cost option for some consumers, and in some cases the only option, for loans with higher loan-to-value (LTV) ratios, our market share could be adversely impacted if the market shifts away from refinance activity, which is likely to occur when interest rates rise. In the multifamily market, we remain a constant source of liquidity and have been successful with our goal of expanding our multifamily MBS business and broadening our multifamily investor base.

Table of Contents

The Performance of Single-Family Loans Acquired Beginning in 2009 and Our Expectations Regarding Future Credit Losses

In this section we discuss our expectations regarding the performance of the single-family loans we have purchased or guaranteed since the beginning of 2009, shortly after entering into conservatorship in late 2008, and our single-family credit losses. We refer to loans we have purchased or guaranteed as loans that we have acquired.

Since the beginning of 2009, we have acquired single-family loans that have a strong overall credit profile and are performing well. We expect these loans will be profitable, by which we mean they will generate more fee income than credit losses and administrative costs, as we discuss in Expected profitability of our single-family acquisitions, below. For further information, see Table 2: Serious Delinquency Rates by Year of Acquisition and Table 3: Credit Profile of Conventional Single-Family Loans Acquired.

Almost all of our realized credit losses in 2009 and 2010 on single-family loans are attributable to single-family loans that we purchased or guaranteed from 2005 through 2008. While these loans will give rise to additional credit losses that we have not yet realized, we estimate that we have reserved for the substantial majority of these losses.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations

In this discussion, we present a number of estimates and expectations regarding the profitability of our loans, our future single-family credit losses, and our draws from and dividends to be paid to Treasury. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, including assumptions about future home prices and the future performance of our loans. Our future estimates of these amounts, as well as the actual amounts, may differ materially from our current estimates as a result of home price changes, changes in interest rates, unemployment, government policy matters, changes in generally accepted accounting principles (GAAP), credit availability, social behaviors, other macro-economic variables, the volume of loans we modify, the effectiveness of our loss mitigation strategies, management of our real estate owned (REO) inventory and pursuit of contractual remedies, changes in the fair value of our assets and liabilities, impairments of our assets, or many other factors. Changes in our underlying assumptions and actual outcomes, which could be affected by the economic environment, government policy, and many other factors, including those discussed in Risk Factors and elsewhere in this report, could result in actual results being materially different from our expectations and estimates.

Expected Profitability of Our Single-Family Acquisitions

While it is too early to know how loans we have acquired since January 1, 2009 will ultimately perform, given their strong credit risk profile, low levels of payment delinquencies shortly after their acquisition, and low serious delinquency rate, we expect that, over their lifecycle, these loans will be profitable. Table 1 provides information about whether we expect loans we acquired in years 1991 through 2010 to be profitable. The expectations reflected in Table 1 are based on the credit risk profile of the loans we have acquired, which we discuss in more detail in Table 3: Credit Profile of Conventional Single-Family Loans Acquired and in Table 37: Risk Characteristics of Conventional Single-Family Business Volume and Guaranty Book of Business. These expectations are also based on numerous other assumptions, including our expectations regarding home price declines set forth below in Outlook. As shown in Table 1, we expect loans we have acquired in 2009 and 2010 to be profitable. If home prices were to decline significantly, these loans could become unprofitable. We believe that these loans would become unprofitable if home prices declined more than 20% from their June 2010 levels over the next five years based on our home price index, which would be an approximately 34% decline from their peak in the third quarter of 2006.

Table of Contents

Table 1: Expected Lifetime Profitability of Single-Family Loans Acquired in 1991 through the First Half of 2010

As Table 1 shows, the key years in which we acquired loans that we expect will be unprofitable are 2005 through 2008. Loans we acquired in 2004 were originated under more conservative acquisition policies than loans we acquired from 2005 through 2008; however, we expect them to perform close to break-even because those loans were made as home prices were rapidly increasing and therefore suffered from the subsequent decline in home prices.

Loans we have acquired since the beginning of 2009 comprised over 30% of our single-family guaranty book of business as of June 30, 2010, and we expect that these loans will generally remain in our guaranty book of business for a relatively extended period of time due to their historically low interest rates. The loans we acquired in the first half of 2010, like those we acquired in 2009, have a weighted average interest rate at origination of 4.9%. Our 2005 to 2008 acquisitions are becoming a smaller percentage of our guaranty book of business, having decreased from 63% of our guaranty book of business as of December 31, 2008 to 45% as of June 30, 2010.

Performance of Our Single-Family Acquisitions

In our experience, an early predictor of the ultimate performance of loans is the rate at which the loans become seriously delinquent within a short period of time after acquisition. Loans we acquired in 2009 have experienced historically low levels of delinquencies shortly after their acquisition. Table 2 shows, for loans we acquired in each year since 2001, the percentage that was seriously delinquent (three or more months past due or in the foreclosure process) as of the end of the second quarter following the acquisition year. As Table 2 shows, the percentage of our 2009 acquisitions that was seriously delinquent as of the end of the second quarter following their acquisition year was more than eight times lower than the average comparable serious delinquency rate for loans acquired in 2005 through 2008. Table 2 also shows serious delinquency rates for

Table of Contents

each year s acquisitions as of June 30, 2010. Except for the most recent acquisition years, whose serious delinquency rates are likely lower than they will be after the loans have aged, Table 2 shows that the June 30, 2010 serious delinquency rate generally tracks the trend of the serious delinquency rate as of the end of the second quarter following the year of acquisition. Below the table we provide information about the economic environment in which the loans were acquired, specifically home price appreciation and unemployment levels.

Table 2: Serious Delinquency Rates by Year of Acquisition

* For 2009, the serious delinquency rate as of June 30, 2010 is the same as the serious delinquency rate as of the end of the second quarter following the acquisition year.

(1) Based on Fannie Mae s House Price Index (HPI), which measures average price changes based on repeat sales on the same properties. For the second quarter of 2010, the data show an initial estimate based on purchase transactions in Fannie-Freddie acquisition and public deed data available through the end of June 2010, supplemented by preliminary data that became available in July 2010. Including subsequently available data may lead to materially different results.

Table of Contents

Credit Profile of Our Single-Family Acquisitions

Single-family loans we purchased or guaranteed from 2005 through 2008 were acquired during a period when home prices were rising rapidly, peaked, and then started to decline sharply, and underwriting and eligibility standards were more relaxed than they are now. These loans were characterized, on average and as discussed below, by higher LTV ratios and lower FICO credit scores than loans we have acquired since January 1, 2009, as well as by other higher-risk loan attributes such as low or no documentation and interest-only payment features. As a result of the sharp declines in home prices, 24% of the loans that we acquired from 2005 through 2008 had mark-to-market LTV ratios that were greater than 100% as of June 30, 2010, which means the principal balance of the borrower s primary mortgage exceeded the current market value of the borrower s home. This percentage is higher when second lien loans secured by the same properties that secure our loans are considered. This sharp decline in home prices and the severe economic recession that began in December 2007 significantly and adversely impacted the performance of loans we acquired from 2005 through 2008. We are taking a number of actions to reduce our credit losses, and we describe these actions and our strategy below in Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business.

In 2009, we began to see the effect of actions we took, beginning in 2008, to significantly tighten our underwriting and eligibility standards and change our pricing to promote and provide prudent sustainable homeownership options and stability in the housing market. As a result of these changes and other market conditions, we reduced our acquisitions of loans with higher-risk loan attributes. The loans we have purchased or guaranteed since January 1, 2009 have had a better credit risk profile overall than loans we acquired in 2005 through 2008, and their early performance has been strong. Our experience has been that loans with stronger credit risk profiles perform better than other loans. For example, we believe a strong predictor of loan performance is LTV ratio, which indicates the amount of equity a borrower has in the underlying property. As Table 3 demonstrates, the loans we have acquired since January 1, 2009 have a strong credit risk profile, with lower original LTV ratios, higher FICO credit scores, and a product mix with a greater percentage of fully amortizing fixed-rate mortgage loans than loans we acquired from 2005 through 2008.

Table 3: Credit Profile of Conventional Single-Family Loans Acquired(1)

	Acquisitions from 2009 through the First Half of 2010	Acquisitions from 2005 through 2008
Weighted average loan-to-value ratio at origination	67%	73%
Weighted average FICO credit score at origination	760	722
Fully amortizing, fixed-rate loans	96%	86%
Alt-A loans	*	14%
Subprime	%	*
Interest-only	1%	12%
Original loan-to-value ratio > 90	5%	11%
FICO credit score < 620	*	5%

* Represent less than 0.5% of the total acquisitions.

(1) Loans that meet more than one category are included in each applicable category.

Improvements in the credit risk profile of our 2009 and 2010 acquisitions over prior years reflect changes that we made to our pricing and eligibility standards, as well as changes mortgage insurers made to their eligibility standards. In addition, FHA s role as the lower-cost option for some consumers for loans with higher LTV ratios has also reduced our acquisitions of this type of loan. The credit risk profile of our 2009 and 2010 acquisitions has been influenced further by a significant percentage of refinanced loans, which generally perform well as they demonstrate a borrower s desire to maintain homeownership. In the first half of 2010 our acquisitions of refinanced loans included a significant number of loans under the Home Affordable Refinance Program (HARP), which involves refinancing existing performing Fannie Mae loans with current LTV ratios between 80% and 125% and possibly lower FICO credit scores into loans that reduce the borrowers monthly payments or are otherwise more sustainable, such as fixed-rate loans. If the volume of HARP loans continues at the current pace, the LTV ratios at origination for our 2010 acquisitions will be higher than for our 2009 acquisitions. However, the overall credit profile of our 2010 acquisitions is expected to remain significantly stronger than the credit profile of our 2005 through 2008 acquisitions. Whether the loans we acquire in the future exhibit an overall credit profile similar to our acquisitions since January 1, 2009 will also depend on a number of factors, including our future eligibility standards and those of mortgage insurers, the percentage of loan originations representing refinancings, our future objectives and market conditions.

The changes we made to our pricing and eligibility standards and underwriting beginning in 2008 were intended to more accurately reflect the risk in the housing market and to significantly reduce our acquisitions of loans with higher-risk attributes. These changes included the following:

Established a minimum FICO credit score and reduced maximum debt-to-income ratio for most loans;

Limited or eliminated certain loan products with higher-risk characteristics, including discontinuing the acquisition of newly originated Alt-A loans (we may continue to selectively acquire seasoned Alt-A loans that meet acceptable eligibility and underwriting criteria; however, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods);

Implemented a more comprehensive risk assessment model in Desktop Underwriter®, our proprietary automated underwriting system, and a comprehensive risk assessment worksheet to assist lenders in the manual underwriting of loans;

Increased our guaranty fee pricing to better align risk and pricing;

Updated our policies regarding appraisals of properties backing loans; and

Established a national down payment policy requiring borrowers to have a minimum down payment (or minimum equity, for refinances) of 3% or 5%, in most cases.

If we had applied our current pricing and eligibility standards and underwriting to loans we acquired in 2005 through 2008, our losses on those loans would be lower, although we would still have experienced losses due to the rise and subsequent sharp decline in home prices and increased unemployment.

Expectations Regarding Credit Losses

Since the beginning of 2009, we have reserved for or realized approximately $100 billion of credit losses on single-family loans, almost all of which are attributable to single-family loans that we purchased or guaranteed from 2005 through 2008. While loans we acquired in 2005 through 2008 will give rise to additional credit losses that we have not yet realized, we estimate that we have reserved for the substantial majority of these losses. Our reserves for credit losses consist of our allowance for loan losses, our allowance for accrued interest receivable, our allowance for property taxes and insurance receivables, our reserve for guaranty losses, and the portion of fair value losses on loans purchased out of MBS trusts reflected in our condensed consolidated balance sheets that we estimate represents accelerated credit losses we expect to realize. We show how we calculate our realized credit losses in Table 13: Credit Loss Performance Metrics.

As a result of the substantial reserving for and realizing of our credit losses to date, we have drawn a significant amount of funds from Treasury through June 30, 2010. As our draws from Treasury for credit losses abate, we expect our draws instead to be driven increasingly by dividend payments. We believe that the losses we ultimately will realize on certain loans may be less than what we will have provided for in our reserves due to accounting requirements. If this occurs, we will adjust our reserves over time as losses are realized, including recapturing reserves.

Table of Contents

Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business

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

- Reducing defaults to avoid losses that would otherwise occur;
- Pursuing foreclosure alternatives to reduce the severity of the losses we incur;
- Managing foreclosure timelines efficiently to reduce our foreclosed property expenses;
- Managing our REO inventory to reduce costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders and providers of credit enhancement, including mortgage insurers.

Reducing defaults. We are working to reduce defaults through improved servicing, refinancing initiatives and solutions that help borrowers retain their homes, such as modifications. We refer to actions taken by our servicers with borrowers to resolve the problem of existing or potential delinquent loan payments as workouts, which include the home retention solutions and the foreclosure alternatives discussed below.

Improved Servicing. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in our efforts to reduce defaults and pursue foreclosure alternatives. We seek to improve the servicing of delinquent loans through a variety of means, including improving our communications with and training of our servicers, increasing the number of our personnel who manage our servicers, directing servicers to contact borrowers at an earlier stage of delinquency and improve telephone communications with borrowers, and working with some of our servicers to establish high-touch servicing protocols designed for managing higher-risk loans.

Refinancing Initiatives. Our refinancing initiatives help borrowers obtain a monthly payment that is more affordable now and into the future and/or a more stable loan product, such as a fixed-rate mortgage loan in lieu of an adjustable-rate mortgage loan, which may help prevent delinquencies and defaults. In the second quarter of 2010, we acquired or guaranteed approximately 126,000 loans through our Refi Plus™ initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. On average, borrowers who refinanced during the second quarter of 2010 through our Refi Plus initiative reduced their monthly mortgage payments by $127. Of the loans refinanced through our Refi Plus initiative, approximately 47,000 loans were refinanced under HARP, which permits borrowers to benefit from lower levels of mortgage insurance and higher LTV ratios than those that would be allowed under our traditional standards. Overall, in the second quarter of 2010, we acquired or guaranteed approximately 354,000 loans that were refinancings, compared to 417,000 loans in the first quarter of 2010, as mortgage rates remained at historically low levels.

Home Retention Solutions. Our home retention solutions are intended to help borrowers stay in their homes and include loan modifications, repayment plans and forbearances. In the second quarter of 2010, we completed home retention workouts for over 132,000 loans with an aggregate unpaid principal balance of $27 billion. On a loan count basis, this represented a 26% increase over home retention workouts completed in the first quarter of 2010. In the second quarter of 2010, we completed approximately 122,000 loan modifications, compared to approximately 94,000 loan modifications in the first quarter of 2010. Our modification statistics do not include trial modifications under the Home Affordable Modification Program (HAMP), but do include conversions of trial HAMP modifications to permanent modifications.

8

Table of Contents

It is too early to determine the ultimate success of the loan modifications we completed during the second quarter of 2010. Approximately 58% of loans we modified during 2009 were current or had paid off as of six months following the loan modification date, compared to approximately 37% of loans we modified during 2008. Please see Risk Management Single-Family Mortgage Credit Risk Management Management of Problem Loans and Loan Workout Metrics for a discussion of the significant uncertainty regarding the ultimate long term success of our modification efforts.

As Table 4 illustrates, our single-family serious delinquency rate decreased during the second quarter of 2010, but remains high. This decrease in our serious delinquency rate is partly the result of the home retention workouts we completed during the quarter, as well as the foreclosure alternative workouts we discuss below.

During the second quarter, we announced enhancements to improve the effectiveness of our home retention solutions. These changes become effective in the coming months and include:

- Enhancements to our loss-mitigation options to provide payment relief for homeowners who have lost their jobs by offering eligible unemployed borrowers a forbearance plan to temporarily reduce or suspend their mortgage payments;
- New servicer requirements for staffing, training and performance monitoring of default-related activities as well as enhanced guidance for call coverage and borrower contact; and
- New requirements for financial information verification before borrowers can be offered a loan modification outside of HAMP.

Discouraging Strategic Defaults. During the second quarter of 2010, we announced an adjustment to the minimum waiting period that must elapse after a foreclosure before a borrower without extenuating circumstances is eligible for a new mortgage loan. The adjustment is designed to increase disincentives for borrowers to walk away from their mortgages without working with servicers to pursue alternatives to foreclosure. Borrowers with extenuating circumstances or those who agree to foreclosure alternatives may qualify for new mortgage loans eligible for sale to Fannie Mae in as little as two to three years.

Pursuing Foreclosure Alternatives. If we are unable to provide a viable home retention solution for a problem loan, we seek to offer foreclosure alternatives and complete them in a timely manner. These foreclosure alternatives are primarily preforeclosure sales, which are sometimes referred to as short sales, as well as deeds-in-lieu of foreclosure. These alternatives reduce the severity of our loss resulting from a borrower s default while permitting the borrower to avoid going through a foreclosure. In the second quarter of 2010, we completed approximately 21,500 preforeclosure sales and deeds-in-lieu of foreclosures, compared with approximately 17,300 in the first quarter of 2010. We have increasingly relied on foreclosure alternatives as a growing number of borrowers have faced longer-term economic hardships that cannot be solved through a home retention solution, and we expect the volume of our foreclosure alternatives to remain high throughout 2010.

Managing Foreclosure Timelines Efficiently. We are working to manage our foreclosure timelines efficiently to reduce our foreclosed property expenses. As of June 30, 2010, 38% of the loans in our conventional single-family guaranty book of business that were seriously delinquent were in the process of foreclosure.

Managing Our REO Inventory. Since January 2009, we have strengthened our REO sales capabilities by significantly increasing the number of resources in this area, and we are working to manage our REO inventory to reduce costs and maximize sales proceeds. During the second quarter of 2010, we acquired approximately 69,000 foreclosed single-family properties, up from approximately 62,000 during the first quarter of 2010, and we disposed of approximately 50,000 single-family properties. The carrying value of the single-family REO we held as of June 30, 2010 was $13.0 billion, and we expect our REO inventory to continue to increase significantly throughout 2010.

Table of Contents

Pursuing Contractual Remedies. We conduct reviews of delinquent loans and, when we discover loans that do not meet our underwriting and eligibility requirements, we make demands for lenders to repurchase these loans or compensate us for losses sustained on the loans. We also make demands for lenders to repurchase or compensate us for loans for which the mortgage insurer rescinds coverage. In 2009 and during the first half of 2010, the number of repurchase and reimbursement requests remained high. During the second quarter of 2010, lenders repurchased approximately $1.5 billion in loans from us, measured by unpaid principal balance, pursuant to their contractual obligations. We are also pursuing contractual remedies from providers of credit enhancement on our loans, including mortgage insurers. We received proceeds under our mortgage insurance policies for single-family loans of $1.2 billion for the second quarter of 2010. Please see Risk Management Institutional Counterparty Credit Risk Management for a discussion of our high balance of outstanding repurchase and reimbursement requests and outstanding receivables from mortgage insurers, as well as the risk that one or more of these counterparties fails to fulfill its obligations to us.

A key theme underlying our strategies for reducing our credit losses is minimizing delays. We believe that repayment plans, short-term forbearances and loan modifications can be most effective in preventing defaults when completed at an early stage of delinquency. Similarly, we believe that our foreclosure alternatives are more likely to be successful in reducing our loss severity if they are executed expeditiously. Accordingly, it is important to work with delinquent borrowers early in the delinquency to determine whether a home retention or foreclosure alternative will be viable and, where no alternative is viable, to reduce delays in proceeding to foreclosure and obtaining recoveries. Minimizing delays prior to foreclosure and focusing on maximizing sales proceeds and recoveries from lenders and credit enhancers also accelerate our receipt of recoveries.

The actions we have taken to stabilize the housing market and minimize our credit losses have had and may 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 Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae for information on HAMP s financial impact on us during the second quarter of 2010 and the $2.2 billion we incurred in loan impairments in connection with HAMP during the quarter. 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

Table 4 presents information for the first and second quarters of 2010 and for each quarter of 2009 about the credit performance of mortgage loans in our single-family guaranty book of business and our loan workouts. The workout information in Table 4 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications under HAMP that have not become permanent.

Table of Contents

Table 4: Credit Statistics, Single-Family Guaranty Book of Business[(1)]

	2010				2009			
	Q2 YTD	Q2	Q1	Full Year	Q4	Q3	Q2	Q
				(Dollars in millions)				
e end of each								
delinquency rate[(2)]	4.99%	4.99%	5.47%	5.38%	5.38%	4.72%	3.94%	
forming loans[(3)]	$ 217,216	$ 217,216	$ 222,892	$ 215,505	$ 215,505	$ 197,415	$ 170,483	$ 14
sed property y:								
of properties	129,310	129,310	109,989	86,155	86,155	72,275	62,615	6
g value	$ 13,043	$ 13,043	$ 11,423	$ 8,466	$ 8,466	$ 7,005	$ 6,002	$
ed loss reserves[(4)]	$ 59,087	$ 59,087	$ 58,900	$ 62,312	$ 62,312	$ 64,200	$ 53,844	$ 4
the period:								
sed property r of properties):								
tions[(5)]	130,767	68,838	61,929	145,617	47,189	40,959	32,095	2
ions	(87,612)	(49,517)	(38,095)	(123,000)	(33,309)	(31,299)	(31,851)	(2
elated expenses[(6)]	$ 16,797	$ 4,871	$ 11,926	$ 71,320	$ 10,943	$ 21,656	$ 18,391	$ 2
osses[(7)]	$ 11,985	$ 6,923	$ 5,062	$ 13,362	$ 3,976	$ 3,620	$ 3,301	$
orkout activity r of loans):								
etention loan s[(8)]	237,218	132,192	105,026	160,722	49,871	37,431	33,098	4
closure sales and n-lieu of ure	38,841	21,515	17,326	39,617	13,459	11,827	8,360	
an workouts	276,059	153,707	122,352	200,339	63,330	49,258	41,458	4
orkouts as a ge of our ent loans in our book of [(9)]	36.98%	41.18%	31.59%	12.24%	15.48%	12.98%	12.42%	

(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 from unconsolidated trusts, 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 mortgage 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, which are unsecured personal loans in the amount of past due payments used to bring mortgage loans current, 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 recognized in our condensed consolidated balance sheets and the reserve for guaranty losses related to both single-family loans backing Fannie Mae MBS that we do not consolidate in our condensed consolidated balance sheets and single-family loans that we have guaranteed under long-term standby commitments. Prior period amounts have been restated to conform to the current period presentation. The

amounts shown as of March 31, 2010 and June 30, 2010 reflect a decrease from the amount shown as of December 31, 2009 as a result of the adoption of the new accounting standards.

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

(6) Consists of the provision for loan losses, the provision (benefit) for guaranty 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 HAMP or repayment plans or forbearances that have been initiated but not completed; (b) repayment plans and forbearances completed and (c) HomeSaver Advance first-lien loans. See Table 41: Statistics on Single-Family Loan Workouts in 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.

New Accounting Standards and Consolidation of a Substantial Majority of our MBS Trusts

Effective January 1, 2010, we prospectively adopted new accounting standards on the transfers of financial assets and the consolidation of variable interest entities. We refer to these accounting standards together as the new accounting standards. In this report, we also refer to January 1, 2010 as the transition date.

Impact on our Condensed Consolidated Financial Statements

Our adoption of the new accounting standards had a major impact on the presentation of our condensed consolidated financial statements. The new standards require that we consolidate the substantial majority of Fannie Mae MBS trusts we guarantee and recognize 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 in our condensed consolidated balance sheets.

Although the new accounting standards did not change the economic risk to our business, we recorded a decrease of $3.3 billion in our total deficit as of January 1, 2010 to reflect the cumulative effect of adopting these new standards. We provide a detailed discussion of the impact of the new accounting standards on our accounting and financial statements in Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities. Upon adopting the new accounting standards, we changed the presentation of segment financial information that is currently evaluated by management, as we discuss in Business Segment Results Changes to Segment Reporting.

Purchases from our Single-Family MBS Trusts

With our adoption of the new accounting standards, we no longer recognize the acquisition of a credit-impaired loan from the majority of our MBS trusts 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 they are now consolidated and the loan is already reflected in our condensed consolidated balance sheets at the time of acquisition. Without these fair value losses, 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 holders of the Fannie Mae MBS. As a result, in the first quarter of 2010 we began to significantly increase our purchases of delinquent loans from single-family MBS trusts to reduce our costs associated with these loans. Under our single-family MBS trust documents, we have the option to purchase from our MBS trusts loans that are delinquent as to four or more consecutive monthly payments. Through June 30, 2010, we had purchased the substantial majority of our delinquent loan population, which resulted in an increase in our Capital Market s mortgage portfolio. We purchased approximately 858,000 delinquent loans with an unpaid principal balance of approximately $170 billion from single-family MBS trusts in the first half of 2010, including the purchase of approximately 570,000 delinquent loans with an unpaid principal balance of approximately $114 billion in the second quarter of 2010.

Table of Contents

We expect to continue to purchase loans from our single-family MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, servicer capacity, and other constraints including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. As of June 30, 2010, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent four or more months was approximately $9 billion. In July 2010, we purchased approximately 50,000 delinquent loans with an unpaid principal balance of approximately $9 billion from our MBS trusts.

Summary of Our Financial Performance for the Second Quarter and First Half of 2010

Our financial results for the second quarter and first half of 2010 reflect the continued weakness in the housing and mortgage markets, which remain under pressure from high levels of unemployment and underemployment.

Quarterly Results

Net loss. We recognized a net loss of $1.2 billion for the second quarter of 2010, driven primarily by credit-related expenses of $4.9 billion, which were partially offset by net interest income of $4.2 billion. Our net loss for the second quarter of 2010 included an out-of-period adjustment of $1.1 billion related to an additional provision for losses on preforeclosure property taxes and insurance receivables. Including dividends on senior preferred stock, the net loss attributable to common stockholders we recognized for the second quarter of 2010 was $3.1 billion and our diluted loss per share was $0.55. In comparison, we recognized a net loss of $11.5 billion, a net loss attributable to common stockholders of $13.1 billion and a diluted loss per share of $2.29 for the first quarter of 2010. We recognized a net loss of $14.8 billion, a net loss attributable to common stockholders of $15.2 billion and a diluted loss per share of $2.67 for the second quarter of 2009.

The $10.3 billion decrease in our net loss in the second quarter of 2010 compared with the first quarter of 2010 was primarily due to:

- a $7.0 billion decrease in credit-related expenses resulting from a decrease in the rate of seriously delinquent single-family loans as well as a decrease in average loss severities due in part to a model change that resulted in a change in estimate of $1.6 billion, which was partially offset by an out-of-period adjustment of $1.1 billion related to an additional provision for losses on preforeclosure property taxes and insurance receivables;

- net fair value gains of $303 million in the second quarter of 2010 compared with net fair value losses of $1.7 billion in the first quarter of 2010 due primarily to lower fair value losses on our derivatives, which were partially offset by lower fair value gains on our trading securities; and

- a $1.4 billion increase in net interest income resulting from the purchase from MBS trusts of the substantial majority of the single-family loans that are four or more monthly payments delinquent, as the cost of purchasing these delinquent loans and holding them in our portfolio is less than the cost of advancing delinquent payments to security holders.

The $13.6 billion decrease in our net loss in the second quarter of 2010 compared with the second quarter of 2009 was primarily due to a $13.9 billion decrease in credit-related expenses, a $616 million decrease in net other-than-temporary impairments and a $545 million decrease in losses from partnership investments. These improvements in our financial results were offset in part by a $1.6 billion decrease in guaranty fee income due to our adoption of the new accounting standards effective January 1, 2010. Upon adoption of these new accounting standards, we eliminated substantially all of our guaranty-related assets and liabilities in our condensed consolidated balance sheet, and therefore we no longer recognize income or loss for consolidated trusts from amortizing these assets and liabilities or from changes in their fair value.

Our credit-related expenses, which consist of the provision for loan losses and the provision for guaranty losses (collectively referred to as the provision for credit losses) plus foreclosed property expense, were $4.9 billion for the second quarter of 2010 compared with $18.8 billion for the second quarter of 2009. The reduction in credit-related expenses was due largely to a decline in the rate of seriously delinquent single-family loans in the second quarter of 2010, due partly to the home retention and foreclosure alternative workouts that we have completed and a higher volume of foreclosures, as compared with an increase in the rate in the second quarter of 2009. In addition, although we acquired significantly more credit-impaired loans in the second quarter of 2010 as compared with the second quarter of 2009, fair value losses recognized on acquired credit-impaired loans were substantially lower due to our adoption of the new accounting standards. Effective January 1, 2010, only purchases of credit-deteriorated loans from unconsolidated MBS trusts or as a result of other credit guarantees result in the recognition of fair value losses upon acquisition. These decreases in our credit-related expenses for the second quarter of 2010 as compared with the second quarter of 2009 were partially offset by an out-of-period adjustment of $1.1 billion related to an additional provision for losses on preforeclosure property taxes and insurance receivables. See Note 5 Allowance for Loan Losses and Reserve for Guaranty Losses.

Year-to-Date Results

Net loss. We recognized a net loss of $12.8 billion for the first half of 2010, driven primarily by credit-related expenses of $16.7 billion and fair value losses of $1.4 billion, which were offset in part by net interest income of $7.0 billion. Our net loss for the first half of 2010 included an out-of-period adjustment of $1.1 billion related to an additional provision for losses on preforeclosure property taxes and insurance receivables. Including dividends on senior preferred stock, the net loss attributable to common stockholders we recognized for the first half of 2010 was $16.2 billion and our diluted loss per share was $2.84. In comparison, we recognized a net loss of $38.0 billion, a net loss attributable to common stockholders of $38.4 billion and a diluted loss per share of $6.76 for the first half of 2009.

The $25.2 billion decrease in our net loss for the first half of 2010 compared with the first half of 2009 was due primarily to a $22.9 billion decrease in credit-related expenses and a $6.0 billion decrease in net other-than-temporary impairments as a result of the adoption of a new other-than-temporary impairment accounting standard in the second quarter of 2009. As a result of this new standard, we only recognize the credit portion of an other-than-temporary impairment in our condensed consolidated statements of operations. These decreases were partially offset by lower guaranty fee income of $3.3 billion due to our adoption of the new accounting standards effective January 1, 2010.

Our credit-related expenses were $16.7 billion for the first half of 2010 compared with $39.7 billion for the first half of 2009. The reduction in credit-related expenses was due largely to a decrease in the rate of seriously delinquent single-family loans in the first half of 2010, due partly to the home retention and foreclosure alternative workouts that we have completed and a higher volume of foreclosures, as compared with an increase in the rate in the first half of 2009. In addition, although we acquired significantly more credit-impaired loans in the first half of 2010 as compared with the first half of 2009, fair value losses recognized on acquired credit-impaired loans were substantially lower due to our adoption of the new accounting standards.

Net Worth. We had a net worth deficit of $1.4 billion as of June 30, 2010, compared with a net worth deficit of $8.4 billion as of March 31, 2010 and $15.3 billion as of December 31, 2009. Our net worth as of June 30, 2010 was negatively impacted by the recognition of our net loss of $1.2 billion and senior preferred stock dividends of $1.9 billion during the second quarter. These reductions in our net worth were offset by our receipt of $8.4 billion in funds from Treasury on June 30, 2010 under our senior preferred stock purchase agreement with Treasury as well as by a reduction in unrealized losses in our holdings of available-for-sale securities of $1.5 billion for the second quarter. 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, equals the Total deficit reported in our condensed consolidated balance sheet. In August 2010, the Acting Director of

FHFA submitted a request to Treasury on our behalf for $1.5 billion to eliminate our net worth deficit as of June 30, 2010. When Treasury provides the requested funds, the aggregate liquidation preference on the senior preferred stock will be $86.1 billion, which will require an annualized dividend of $8.6 billion. This amount exceeds our reported annual net income for each of the last eight fiscal years, in most cases by a significant margin.

Loss Reserves. Our combined loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, remained at the same level as of June 30, 2010 as compared with March 31, 2010. Our combined loss reserves were $60.8 billion as of June 30, 2010 and March 31, 2010, compared with $53.8 billion as of January 1, 2010 and $64.4 billion as of December 31, 2009. Our combined loss reserves decreased as of January 1, 2010 compared with December 31, 2009 as a result of our adoption of the new accounting standards. Our loss reserve coverage to total nonperforming loans was 27.87% as of June 30, 2010 compared with 27.15% as of March 31, 2010 and 29.73% as of December 31, 2009.

Housing and Mortgage Market and Economic Conditions

During the second quarter of 2010, concern grew that the European crisis and concern over sovereign debt could slow the economic recovery in the United States. The pace of economic recovery in the U.S. slowed, with the U.S. gross domestic product, or GDP, rising by 2.4% on an annualized basis during the quarter, according to the Bureau of Economic Analysis advance estimate.

The housing market remains under pressure due in part to the weak labor market. The slowdown in job growth in the latter part of the second quarter, after solid increases in March and April, occurred across industries. Unemployment was 9.5% in June 2010, a decrease from 9.7% in March 2010, based on data from the U.S. Bureau of Labor Statistics. This decrease however, resulted from individuals leaving the labor force (and therefore no longer counted as unemployed) in numbers substantially greater than the decrease in household employment.

The Mortgage Bankers Association National Delinquency Survey reported that, as of March 31, 2010, the most recent date for which information is available, 9.54% of borrowers were seriously delinquent (90 days or more past due or in the foreclosure process), which we estimate represents approximately five million mortgages. In June, the supply of single-family homes as measured by the inventory/sales ratio remained above long-term average levels. Properties that are vacant and held off the market, combined with the portion of the estimated five million seriously delinquent mortgages not currently listed for sale, represent a shadow inventory putting downward pressure on both home prices and rents.

We estimate that home prices on a national basis improved by 2.2% in the second quarter of 2010 and have declined by 16.9% from their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available. As we have previously disclosed, the decline in home prices has left many homeowners with negative equity in their mortgages, which means their principal mortgage balance exceeds the current market value of their home. This creates a risk that borrowers might walk away from their mortgage obligations and for the loans to become delinquent and proceed to foreclosure.

Unemployment, the slow economic recovery, and below average household formations continue to impact the multifamily sector, with apartment property sales, occupancy levels, and asking rents remaining at depressed levels. However, the preliminary data for the second quarter of 2010 indicate that multifamily housing fundamentals continue to show signs of improvement, which is evidenced by a decrease in the national vacancy rate. In addition, national asking rents appear to have held steady, based on preliminary third-party data, and apartment property sales increased slightly during the quarter. The anticipated volume of new multifamily loans remains uncertain. Although the number of distressed multifamily properties remains elevated, properties are not showing up on the sales market as lenders and servicers appear to be entering into workouts and extensions, instead of pursuing foreclosures. This could result in fewer multifamily properties

Table of Contents

being offered for sale or refinanced and may constrain the amount of new multifamily loan origination volume in 2010.

See Risk Factors in our 2009 Form 10-K for a description of risks to our business associated with the weak economy and housing market.

Outlook

Overall Market Conditions. We expect weakness in the housing and mortgage markets to continue throughout 2010. Home sales increased during the second quarter of 2010, but we expect the pace to slow substantially in the third quarter, and be basically flat for all of 2010. In addition, the continued deterioration in the performance of outstanding mortgages will result in the foreclosure of troubled loans, which is likely to add to the excess housing inventory.

We expect that during 2010: (1) default and severity rates will remain high, (2) home prices will decline slightly on a national basis, more so in some geographic areas than in others, and (3) the level of foreclosures will increase. We also expect the level of multifamily defaults and serious delinquencies to increase further during 2010. All of these conditions, including the level of single-family delinquencies, may worsen if the unemployment rate increases on either a national or regional basis. We expect the decline in residential mortgage debt outstanding to continue through 2010, which would mark three consecutive annual declines. Approximately 69% of our single-family business in the second quarter of 2010 consisted of refinancings. We expect these trends, combined with an expected decline in total originations in 2010, will have an adverse impact on our business volumes during the remainder of 2010.

Home Price Declines: We expect that home prices on a national basis will decline slightly in 2010 and into 2011 before stabilizing, and that the peak-to-trough home price decline on a national basis will range between 18% and 25%. 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 the 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 and stabilization.

Our 18% to 25% peak-to-trough home price decline estimate corresponds to an approximate 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 by number of properties, whereas the S&P/Case-Shiller index weights expectations based on property value, causing home price declines on higher priced homes to have a greater effect on the overall result; and (2) contrary to the S&P/Case-Shiller index, 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. The S&P/Case-Shiller comparison numbers 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 and Credit Losses. As described above, we expect our financial results will continue to be negatively affected by losses primarily on a subset of loans we acquired between 2005 through

16

Table of Contents

2008. We expect that our credit-related expenses will remain high in 2010. However we expect that, if current trends continue, our credit-related expenses will be lower in 2010 than in 2009. We describe our credit loss outlook above under The performance of single-family loans acquired beginning in 2009 and our expectation regarding future credit losses.

Uncertainty Regarding our Long-Term Financial Sustainability and Future Status. 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. 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 and credit losses to vary significantly from our current expectations. Although Treasury s funds under the senior preferred stock purchase agreement permit us to remain solvent and avoid receivership, the resulting dividend payments are substantial. Given our expectations regarding future losses, which we describe above under The performance of single-family loans acquired beginning in 2009 and our expectation regarding future credit losses, we do not expect to earn profits in excess of our annual dividend obligation to Treasury for the indefinite future. As a result of these factors, there is significant uncertainty as to our long-term financial sustainability.

In addition, there is significant debate regarding the future of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (the GSEs), and proposals to reform them. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding longer-term reform of the GSEs. Please see Legislation for a discussion of recent legislative reform of the financial services industry, and proposals for GSE reform, that could affect our business.

REGULATORY ACTION

Delisting of our Common and Preferred Stock

We were directed by FHFA to delist our common stock and each listed series of our preferred stock from the New York Stock Exchange and the Chicago Stock Exchange. The last trading day for our listed securities on these exchanges was July 7, 2010, and since July 8, 2010, these securities have been quoted on the over-the-counter market.

Determination by FHFA Regarding 2009 Housing Goals Compliance

The Federal Housing Finance Regulatory Reform Act of 2008 (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, to make appropriate adjustments to the 2009 goals. The final 2009 housing goals FHFA adopted in August 2009 lowered our 2009 base goals and home purchase subgoals from 2008 levels, and increased our multifamily special affordable housing subgoal. Our 2009 housing goals were at approximately the levels that existed in 2004 through 2006.

In December 2009, FHFA notified us that we were likely to fail to meet the underserved areas goal. At that time, FHFA made no determination as to the underserved areas subgoal or the multifamily special affordable housing subgoal. We 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. In June 2010, FHFA notified us of its determination that achievement of this goal and subgoal was not feasible, primarily due to housing market and economic conditions in 2009. In July 2010, FHFA notified us that we had met all of the goals and subgoals except for the underserved areas goal and the multifamily special affordable housing subgoal. Because FHFA found these goals to be infeasible, we will not be required to submit a housing plan for failure to meet this goal and subgoal pursuant to the Federal Housing Enterprises Safety and Soundness Act of 1992.

For additional background information on our housing goals and subgoals, refer to Business Our Charter and Regulation of Our Activities Housing Goals and Subgoals and Duty to Serve Underserved Markets of our 2009 Form 10-K.

Proposed Rule Regarding Duty to Serve Underserved Markets

The 2008 Reform Act created the duty to serve underserved markets in order for us and Freddie Mac to provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for very low-, low-, and moderate-income families with respect to three underserved markets: manufactured housing, affordable housing preservation, and rural areas.

The duty to serve is a new oversight responsibility for FHFA beginning in 2010. The Director of FHFA is required to establish by regulation a method for evaluating and rating the performance by us and Freddie Mac of the duty to serve underserved markets. On June 7, 2010, FHFA published its proposed rule to implement this new duty.

The 2008 Reform Act requires FHFA to separately evaluate the following four assessment factors:

- The loan product assessment factor requires evaluation of our development of loan products, more flexible underwriting guidelines, and other innovative approaches to providing financing to each underserved market.

- The outreach assessment factor requires evaluation of the extent of outreach to qualified loan sellers and other market participants. We are expected to engage market participants and pursue relationships that result in enhanced service to each underserved market.

- The loan purchase assessment factor requires FHFA to consider the volume of loans purchased in each underserved market relative to the market opportunities available to us. The 2008 Reform Act prohibits the establishment of specific quantitative targets. However, under the proposed rule, FHFA would consider the volume of loans purchased in past years.

- The investment and grants assessment factor requires evaluation of the amount of investment and grants in projects that assist in meeting the needs of underserved markets.

Under the proposed rule, FHFA would give the loan purchase and outreach assessment factors significant weight, while the investment and grants assessment factor would receive little or no weight. In addition, FHFA would consider the loan product assessment factor, even though we are not required to, and in fact are prohibited from, entering into new lines of business and developing new products. The proposed rule states that purchases and activities pursuant to the duty to serve should be profitable, even if less profitable than other activities.

Under the proposed rule, we would be required to submit an underserved markets plan at least 90 days before the plan s effective date of January 1st of a particular year establishing benchmarks and objectives against which FHFA would evaluate and rate our performance. The plan term is two years. For the 2010 year, we must submit a plan as soon as practicable after the publication of the final rule, with the earliest feasible effective date.

FHFA would evaluate our performance on each assessment factor annually, and assign a rating of satisfactory or unsatisfactory to each factor and in each underserved market. Each factor would be evaluated and weighted based on the needs of the particular underserved market, overall market conditions and our financial condition. Based on the assessment factor findings, FHFA would assign a rating of in compliance or noncompliance with the duty to serve each underserved market.

With some exceptions, the counting rules and other requirements would be similar to those established for the housing goals. For the loan purchase assessment factor, FHFA proposes to measure performance in terms of units rather than mortgages or unpaid principal balance. All single-family loans we purchase must meet the standards in the Interagency Statement on Subprime Mortgage Lending and the Interagency Guidance on Nontraditional Mortgage Product Risks. We are expected to review the operations of loan sellers to ensure compliance with these standards.

If we fail to comply with, or there is a substantial probability that we will not comply with, our duty to serve a particular underserved market in a given year, FHFA would determine whether the benchmarks and objectives in our underserved markets plan are or were feasible. If we fail to meet our duty to serve, and FHFA determines that the benchmarks and objectives in our underserved markets plan are or were feasible, then, in the Director s discretion, we may be required to submit a housing plan. Under the proposed rule, the housing plan must describe the activities that we will take to comply with the duty to serve a particular underserved market for the next calendar year, or improvements and changes in operations that we will make during the remainder of the current year.

Under the proposed rule, we would be required to provide quarterly and annual reports on our performance and progress towards meeting our duty to serve.

See Risk Factors for a description of how changes we may make in our business strategies in order to meet our duty to serve requirement may increase our credit losses and adversely affect our results of operations.

Proposed Rule Regarding Conservatorship/Receivership Operations

On July 9, 2010, FHFA published a proposed rule to establish a framework for conservatorship and receivership operations for the GSEs, as contemplated by the 2008 Reform Act. The proposed rule clarifies (i) that all claims arising from an equity interest in a regulated entity in receivership would be given the same treatment as the interests of shareholders; (ii) that claims by shareholders would receive the lowest priority in a receivership, behind administrative expenses of the receiver, general liabilities of the regulated entity and liabilities subordinated to those of general creditors; (iii) that the ability of a regulated entity to make capital distributions during a conservatorship would be restricted; (iv) that the powers of the conservator or receiver include continuing the missions of a regulated entity and ensuring that the operations of the regulated entity foster liquid, efficient, competitive and resilient national housing finance markets; and (v) the status of claims against the conservator or receiver for breach of contract. The proposed rule would also provide that payment of certain securities litigation claims would be held in abeyance during conservatorship, except as otherwise ordered by FHFA.

The proposed rule is part of FHFA s implementation of the powers provided by the 2008 Reform Act, and does not seek to anticipate or predict future conservatorships or receiverships. In announcing the publication of this proposed rule for comment, the Acting Director of FHFA said it had no impact on current conservatorship operations.

LEGISLATION

Financial Regulatory Reform Legislation

On July 21, 2010, President Obama signed into law financial regulatory reform legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Wall Street Reform Act). Some key provisions of the legislation, include: (i) more stringent regulation of financial institutions deemed systemically important, and an orderly liquidation mechanism for these institutions; (ii) creation of a bureau of consumer financial protection with broad rulemaking and enforcement authority; (iii) greater oversight of derivatives; (iv) mortgage underwriting standards and liability for failure to meet them; (v) credit risk retention

Table of Contents

requirements for certain asset-backed securities, including certain mortgage-backed securities; and (vi) independent appraisal standards for residential properties securing loans.

The Wall Street Reform Act establishes an interagency council chaired by the Secretary of the Treasury to identify systemically important institutions. These institutions will be subject to stricter prudential standards to be established by the Federal Reserve, including standards related to risk-based capital, leverage limits, liquidity, credit concentrations, resolution plans, reporting credit exposures, and other risk management measures. Institutions will also be subject to stress tests on a regular basis. The Federal Reserve may impose other standards related to contingent capital, enhanced public disclosure, short term debt limits and other requirements as appropriate.

The Wall Street Reform Act creates a resolution regime for the orderly dissolution of financial companies whose failure may jeopardize U.S. financial stability. Fannie Mae is expressly exempted from this resolution regime.

The Wall Street Reform Act establishes the independent Bureau of Consumer Financial Protection as a part of the Federal Reserve System, with responsibility for enforcing most existing federal financial consumer protection laws and authority to adopt new regulations.

The Wall Street Reform Act requires that most swap transactions be submitted for clearing with a clearing organization, with some exceptions (for example, if one of the parties is a commercial end user). It also requires certain institutions meeting the definition of a major swap participant to register with the Commodity Futures Trading Commission (the CFTC). The Wall Street Reform Act defines major swap participant broadly enough to include Fannie Mae.

If Fannie Mae is determined to be a major swap participant, minimum capital and margin requirements would apply to our swap transactions, including transactions that are not subject to clearing. Under the Wall Street Reform Act, FHFA, in consultation with the CFTC and SEC, would establish those requirements. Registrants with the CFTC are also subject to the CFTC s reporting, record keeping, daily trading and business conduct regulations for swaps transactions.

The Wall Street Reform Act requires creditors to determine that borrowers have a reasonable ability to repay mortgage loans prior to making such loans. If a creditor fails to comply, borrowers can offset amounts they owe as part of a foreclosure or recoup monetary damages. The Wall Street Reform Act provides a presumption of compliance for mortgage loans that meet certain terms and characteristics; however, the presumption is rebuttable by a borrower bringing a claim.

The Wall Street Reform Act requires financial regulators to jointly prescribe regulations requiring securitizers and/or originators to maintain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. This risk retention requirement would not appear to apply to Fannie Mae and, in any event, Fannie Mae already retains the credit risk on mortgages it owns or guarantees. How this requirement will affect our customers and counterparties on loans sold to and guaranteed by Fannie Mae will depend on how the regulations are implemented.

Within 90 days of enactment of the Wall Street Reform Act, the Federal Reserve must issue interim final regulations governing appraisal independence in the provision of mortgage lending and brokerage services. Upon issuance of the regulations, Fannie Mae s Home Valuation Code of Conduct will expire.

Because extensive regulatory guidance is needed to clarify and implement many of the provisions of this legislation, we cannot predict its potential impact on our company or our industry.

Table of Contents

GSE Reform

The Wall Street Reform Act contains two provisions related to secondary mortgage market reforms. The first requires the Treasury Secretary to submit a report to Congress by January 31, 2011, with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac. The second is a sense or opinion of Congress that efforts to regulate the terms and practices related to residential mortgage credit are incomplete without enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. This nonbinding sense of the Congress has no legal effect.

We expect hearings on GSE reform to continue and additional proposals to be discussed. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in Note 1, Summary of Significant Accounting Policies of this report and in our 2009 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See Risk Factors and MD&A Risk Management Model Risk Management for a discussion of the risk associated with the use of models and MD&A Critical Accounting Policies and Estimates in our 2009 Form 10-K for additional information about our accounting policies we have identified as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement
- Allowance for Loan Losses and Reserve for Guaranty Losses
- Other-Than-Temporary Impairment of Investment Securities

Effective January 1, 2010, we adopted the new accounting standards on the transfers of financial assets and the consolidation of variable interest entities. Refer to Note 1, Summary of Significant Accounting Policies and Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities for additional information.

We provide below information about our Level 3 assets and liabilities as of June 30, 2010 compared to December 31, 2009 and describe any significant changes in the judgments and assumptions we made during the first half of 2010 in applying our critical accounting policies and significant changes to critical estimates as well as the impact of the new accounting standards on our allowance for loan losses and reserve for guaranty losses.

Table of Contents

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in Note 16, Fair Value.

Fair Value Hierarchy Level 3 Assets and Liabilities

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

Table 5 presents a comparison, by balance sheet category, of the amount of financial assets carried in our condensed consolidated balance sheets at fair value on a recurring basis and classified as Level 3 as of June 30, 2010 and December 31, 2009. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the amount of financial instruments carried at fair value on a recurring basis and classified as Level 3 to vary each period.

Table 5: Level 3 Recurring Financial Assets at Fair Value

Balance Sheet Category	As of June 30, 2010	As of December 31, 2009
	(Dollars in millions)	
Trading securities	$ 2,660	$ 8,861
Available-for-sale securities	34,549	36,154
Derivatives assets	337	150
Guaranty assets and buy-ups	15	2,577
Level 3 recurring assets	$ 37,561	$ 47,742
Total assets	$ 3,256,267	$ 869,141
Total recurring assets measured at fair value	$ 200,650	$ 353,718
Level 3 recurring assets as a percentage of total assets	1%	5%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	19%	13%
Total recurring assets measured at fair value as a percentage of total assets	6%	41%

The decrease in assets classified as Level 3 during the first half of 2010 includes a $2.6 billion decrease due to derecognition of guaranty assets and buy-ups at the transition date as well as net transfers of approximately $7.4 billion in assets to Level 2 from Level 3. The assets transferred from Level 3 consist primarily of Fannie Mae guaranteed mortgage-related securities and private-label mortgage-related securities.

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include held-for-sale loans, held-for-investment loans, acquired property and partnership investments. The fair value of Level 3 nonrecurring financial assets totaled $27.6 billion during the first half of 2010, and $21.2 billion during the year ended December 31, 2009.

Table of Contents

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $690 million as of June 30, 2010 and $601 million as of December 31, 2009, and derivatives liabilities with a fair value of $111 million as of June 30, 2010 and $27 million as of December 31, 2009.

Allowance for Loan Losses and Reserve for Guaranty Losses

We maintain an allowance for loan losses for loans classified as held for investment, including both loans held by us and by consolidated Fannie Mae MBS trusts. We maintain a reserve for guaranty losses for loans held in unconsolidated Fannie Mae MBS trusts we guarantee and loans that we have guaranteed under long-term standby commitments. We report the allowance for loan losses and reserve for guaranty losses as separate line items in our condensed consolidated balance sheets. These amounts, which we collectively refer to as our combined loss reserves, represent probable losses incurred in our guaranty book of business as of the balance sheet date. The allowance for loan losses is a valuation allowance that reflects an estimate of incurred credit losses related to our recorded investment in loans held for investment. The reserve for guaranty losses is a liability account in our condensed consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. As a result, the guaranty reserve considers not only the principal and interest due on the loan at the current balance sheet date, but also an estimate of any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. We maintain separate loss reserves for single-family and multifamily loans. Our single-family and multifamily loss reserves consist of a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. Although our loss reserve process benefits from extensive historical loan performance data, this process is subject to risks and uncertainties, including a reliance on historical loss information that may not be representative of current conditions. We continually monitor delinquency and default trends and make changes in our historically developed assumptions and estimates as necessary to better reflect present conditions, including current trends in borrower risk and/or general economic trends, changes in risk management practices, and changes in public policy and the regulatory environment. We also consider the recoveries that we will receive on mortgage insurance and other credit enhancements entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction, as such recoveries reduce the severity of the loss associated with defaulted loans. Due to the stress in the housing and credit markets, and the speed and extent of deterioration in these markets, our process for determining our loss reserves has become significantly more complex and involves a greater degree of management judgment than prior to this period of economic stress.

Single-Family Loss Reserves

We establish a specific single-family loss reserve for individually impaired loans, which includes loans we restructure in troubled debt restructurings, certain nonperforming loans in MBS trusts and acquired credit-impaired loans that have been further impaired subsequent to acquisition. The single-family loss reserve for individually impaired loans is a growing portion of the total single-family reserve and will continue to grow in conjunction with our modification efforts. We typically measure impairment based on the difference between our recorded investment in the loan and the present value of the estimated cash flows we expect to receive, which we calculate using the effective interest rate of the original loan or the effective interest rate at acquisition for a credit-impaired loan. However, when foreclosure is probable, we measure impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property, adjusted for the estimated discounted costs to sell the property and estimated insurance or other proceeds we expect to receive.

We establish a collective single-family loss reserve for all other single-family loans in our single-family guaranty book of business using an econometric model that estimates the probability of default of loans to derive an overall loss reserve estimate given multiple factors such as: origination year, mark-to-market LTV ratio, delinquency status and loan product type. We believe that the loss severity estimates used in determining our loss reserves reflect current available information on actual events and conditions as of each balance sheet date, including current home prices. Our loss severity estimates do not incorporate assumptions about future changes in home prices. We do, however, use a one-quarter look back period to develop our loss severity estimates for all loan categories.

In the second quarter of 2010, we updated our allowance for loan loss model to reflect a change in our cohort structure for our severity calculations to use mark-to-market LTV ratios rather than LTV ratios at origination, which we believe better reflects the current values of the loans. This model change resulted in a change in estimate and a decrease to our allowance for loan losses of approximately $1.6 billion.

Combined Loss Reserves

Upon recognition of the mortgage loans held by newly consolidated trusts at the transition date of our adoption of the new accounting standards, we increased our Allowance for loan losses by $43.6 billion and decreased our Reserve for guaranty losses by $54.1 billion. The decrease in our combined loss reserves of $10.5 billion reflects the difference in the methodology used to estimate incurred losses under our allowance for loan losses versus our reserve for guaranty losses and recording the portion of the reserve related to accrued interest to Allowance for accrued interest receivable in our condensed consolidated balance sheets. Our guaranty reserve considers not only the principal and interest due on a loan at the current balance sheet date, but also any interest payments expected to be missed from the balance sheet date until the point of loan acquisition or foreclosure. However, our loan loss allowance is an asset valuation allowance, and thus we consider only our net recorded investment in the loan at the balance sheet date, which includes only interest income accrued while the loan was on accrual status.

Upon adoption of the new accounting standards, we derecognized the substantial majority of the Reserve for guaranty losses relating to loans in previously unconsolidated trusts that were consolidated in our condensed consolidated balance sheet. We continue to record a reserve for guaranty losses related to loans in unconsolidated trusts and to loans that we have guaranteed under long-term standby commitments.

In addition to recognizing mortgage loans held by newly consolidated trusts at the transition date, we also recognized the associated accrued interest receivable from the mortgage loans held by the newly consolidated trusts. The accrued interest included delinquent interest on such loans which was previously considered in estimating our Reserve for guaranty losses. As a result, at transition, we reclassified $7.0 billion from our Reserve for guaranty losses to a valuation allowance within Accrued interest receivable, net in our condensed consolidated balance sheet.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a discussion of our condensed consolidated results of operations for the periods indicated. You should read this section together with our condensed consolidated financial statements including the accompanying notes.

As discussed in Executive Summary, prospectively adopting the new accounting standards had a significant impact on the presentation and comparability of our condensed consolidated financial statements due to the consolidation of the substantial majority of our single-class securitization trusts and the elimination of previously recorded deferred revenue from our guaranty arrangements. While some line items in our condensed consolidated statements of operations were not impacted, others were impacted significantly, which reduces the comparability of our results for the second quarter and first half of 2010 with the results of these

Table of Contents

periods in prior years. The following table describes the impact to our second quarter and first half of 2010 results for those line items that were impacted significantly as a result of our adoption of the new accounting standards.

Item	Consolidation Impact
Net interest income	We now recognize the underlying assets and liabilities of the substantial majority of our MBS trusts in our condensed consolidated balance sheets, which increases both our interest-earning assets and interest-bearing liabilities and related interest income and interest expense. Contractual guaranty fees and the amortization of deferred cash fees received after December 31, 2009 are recognized into interest income. We now include nonperforming loans from the majority of our MBS trusts in our consolidated financial statements, which decreases our net interest income as we do not recognize interest income on these loans while we continue to recognize interest expense for amounts owed to MBS certificateholders. Trust management income and certain fee income from consolidated trusts are now recognized as interest income.
Guaranty fee income	Upon adoption of the new accounting standards, we eliminated substantially all of our guaranty-related assets and liabilities in our condensed consolidated balance sheets. As a result, consolidated trusts deferred cash fees and non-cash fees through December 31, 2009 were recognized into our total deficit through the transition adjustment effective January 1, 2010, and we no longer recognize income or loss from amortizing these assets and liabilities nor do we recognize changes in their fair value. As noted above, we now recognize both contractual guaranty fees and the amortization of deferred cash fees received after December 31, 2009 through interest income, thereby reducing guaranty fee income to only those amounts related to unconsolidated trusts and other credit enhancements arrangements, such as our long-term standby commitments.
Credit-related expenses	As the majority of our trusts are consolidated, we no longer record fair value losses on credit-impaired loans acquired from the substantial majority of our trusts. The substantial majority of our combined loss reserves are now recognized in our allowance for loan losses to reflect the loss allowance against the consolidated mortgage loans. We use a different methodology to estimate incurred losses for our allowance for loan losses as compared with our reserve for guaranty losses which will reduce our credit-related expenses.
Investment gains (losses), net	Our portfolio securitization transactions that reflect transfers of assets to consolidated trusts do not qualify as sales, thereby reducing the amount we recognize as portfolio securitization gains and losses. We no longer designate the substantial majority of our loans held for securitization as held-for-sale as the substantial majority of related MBS trusts will be consolidated, thereby reducing lower of cost or fair value adjustments. We no longer record gains or losses on the sale from our portfolio of the substantial majority of our available-for-sale MBS because these securities were eliminated in consolidation.

Fair value gains (losses), net	We no longer record fair value gains or losses on the majority of our trading MBS, thereby reducing the amount of securities subject to recognition of changes in fair value in our condensed consolidated statement of operations.
Other expenses	Upon purchase of MBS securities issued by consolidated trusts where the purchase price of the MBS does not equal the carrying value of the related consolidated debt, we recognize a gain or loss on debt extinguishment.

See Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities for a further discussion of the impacts of the new accounting standards on our condensed consolidated financial statements.

Table of Contents

Table 6 summarizes our condensed consolidated results of operations for the periods indicated.

Table 6: Summary of Condensed Consolidated Results of Operations[1]

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2010	2009	Variance	2010	2009	Variance
	(Dollars in millions, except per share amounts)					
Net interest income	$ 4,207	$ 3,735	$ 472	$ 6,996	$ 6,983	$ 13
Guaranty fee income	52	1,659	(1,607)	106	3,411	(3,305)
Fee and other income	242	197	45	421	389	32
Net revenues	**$ 4,501**	**$ 5,591**	**$ (1,090)**	**$ 7,523**	**$ 10,783**	**$ (3,260)**
Investment gains (losses), net	23	(45)	68	189	178	11
Net other-than-temporary impairments	(137)	(753)	616	(373)	(6,406)	6,033
Fair value gains (losses), net	303	823	(520)	(1,402)	(637)	(765)
Losses from partnership investments	(26)	(571)	545	(84)	(928)	844
Administrative expenses	(670)	(510)	(160)	(1,275)	(1,033)	(242)
Credit-related expenses[2]	(4,851)	(18,784)	13,933	(16,735)	(39,656)	22,921
Other non-interest expenses	(357)	(508)	151	(653)	(866)	213
Loss before federal income taxes	(1,214)	(14,757)	13,543	(12,810)	(38,565)	25,755
Benefit (provision) for federal income taxes	(9)	(23)	14	58	600	(542)
Net loss	(1,223)	(14,780)	13,557	(12,752)	(37,965)	25,213
Less: Net loss attributable to the noncontrolling interest	5	26	(21)	4	43	(39)
Net loss attributable to Fannie Mae	**$ (1,218)**	**$ (14,754)**	**$ 13,536**	**$ (12,748)**	**$ (37,922)**	**$ 25,174**
Diluted loss per common share	**$ (0.55)**	**$ (2.67)**	**$ 2.12**	**$ (2.84)**	**$ (6.76)**	**$ 3.92**

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) Consists of provision for loan losses, provision for guaranty losses and foreclosed property expense.

Net Interest Income

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

Table 7: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans(1)	$ 2,986,488	$ 37,632	5.04%	$ 428,975	$ 5,611	5.23%
Mortgage securities	139,437	1,653	4.74	343,031	4,162	4.85
Non-mortgage securities(2)	111,294	66	0.23	55,338	68	0.49
Federal funds sold and securities purchased under agreements to resell or similar arrangements	47,571	23	0.19	49,678	110	0.87
Advances to lenders	2,673	18	2.66	5,970	29	1.92
Total interest-earning assets	$ 3,287,463	$ 39,392	4.79%	$ 882,992	$ 9,980	4.52%
Interest-bearing liabilities:						
Short-term debt	$ 240,540	$ 167	0.27%	$ 290,189	$ 600	0.82%
Long-term debt	3,010,485	35,018	4.65	576,008	5,645	3.92
Federal funds purchased and securities sold under agreements to repurchase	14		0.03	3		4.27
Total interest-bearing liabilities	$ 3,251,039	$ 35,185	4.33%	$ 866,200	$ 6,245	2.88%
Impact of net non-interest bearing funding	$ 36,424		0.05%	$ 16,792		0.05%
Net interest income/net interest yield		$ 4,207	0.51%		$ 3,735	1.69%
Selected benchmark interest rates at end of period:(3)						
3-month LIBOR			0.53%			0.60%

2-year swap interest rate	0.97	1.53
5-year swap interest rate	2.06	2.97
30-year Fannie Mae MBS par coupon rate	3.75	4.59

Table of Contents

	For the Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans[1]	$ 2,987,843	$ 75,251	5.04%	$ 429,969	$ 11,209	5.21%
Mortgage securities	143,961	3,404	4.73	344,985	8,782	5.09
Non-mortgage securities[2]	89,200	103	0.23	51,862	159	0.61
Federal funds sold and securities purchased under agreements to resell or similar arrangements	43,838	44	0.20	56,893	214	0.74
Advances to lenders	2,593	36	2.76	5,118	52	2.02
Total interest-earning assets	$ 3,267,435	$ 78,838	4.83%	$ 888,827	$ 20,416	4.59%
Interest-bearing liabilities:						
Short-term debt	$ 216,102	$ 285	0.26%	$ 310,200	$ 1,707	1.09%
Long-term debt	3,019,551	71,557	4.74	565,407	11,726	4.15
Federal funds purchased and securities sold under agreements to repurchase	19		0.06	41		1.24
Total interest-bearing liabilities	$ 3,235,672	$ 71,842	4.44%	$ 875,648	$ 13,433	3.07%
Impact of net non-interest bearing funding	$ 31,763		0.04%	$ 13,179		0.05%
Net interest income/net interest yield		$ 6,996	0.43%		$ 6,983	1.57%

(1) Interest income includes interest income on acquired credit-impaired loans of $586 million and $256 million for the three months ended June 30, 2010 and 2009, respectively and $1.2 billion and $409 million for the six months ended June 30, 2010 and 2009, respectively, which included accretion income of $288 million and $198 million for the three months ended June 30, 2010 and 2009, respectively and $554 million and $263 million for the six months ended June 30, 2010 and 2009, respectively, relating to a portion of the fair value losses recorded upon the acquisition of the loans. Average balance includes loans on nonaccrual, for which interest income is recognized when collected.

(2) Includes cash equivalents.

(3) Data from British Bankers Association, Thomson Reuters Indices and Bloomberg.

Table of Contents

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

	For the Three Months Ended June 30, 2010 vs. 2009			For the Six Months Ended June 30, 2010 vs. 2009		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans	$ 32,021	$ 32,234	$ (213)	$ 64,042	$ 64,435	$ (393)
Mortgage securities	(2,509)	(2,416)	(93)	(5,378)	(4,793)	(585)
Non-mortgage securities[2]	(2)	45	(47)	(56)	76	(132)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(87)	(4)	(83)	(170)	(41)	(129)
Advances to lenders	(11)	(20)	9	(16)	(31)	15
Total interest income	29,412	29,839	(427)	58,422	59,646	(1,224)
Interest expense:						
Short-term debt	(433)	(89)	(344)	(1,422)	(406)	(1,016)
Long-term debt	29,373	28,129	1,244	59,831	57,927	1,904
Total interest expense	28,940	28,040	900	58,409	57,521	888
Net interest income	$ 472	$ 1,799	$ (1,327)	$ 13	$ 2,125	$ (2,112)

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

(2) Includes cash equivalents.

Net interest income increased in the second quarter of 2010 compared with the second quarter of 2009 primarily as a result of the recognition of contractual guaranty fees in interest income upon adoption of the new accounting standards and a reduction in interest expense related to debt that we have issued as lower borrowing rates allowed us to replace higher-cost debt with lower-cost debt. The increase in net interest income was partially offset by a reduction in interest income due to a significant increase of non-performing loans in our condensed consolidated balance sheets. While we do not recognize interest income on the mortgage loans of the consolidated trusts that have been placed on nonaccrual status, we continue to recognize interest expense for the amounts owed to MBS certificateholders, which has decreased our net interest income. Prior to the adoption of the new accounting standards, interest income and expense on MBS trusts not owned by Fannie Mae were not recorded as components of net interest income but were considered in determining our provision for credit losses. For the second quarter of 2010, interest income that we did not recognize for nonaccrual mortgage loans, net of recoveries, was $2.2 billion, which reduced our net interest yield by 27 basis points, compared with $245 million for the second quarter of 2009, which reduced our net interest yield by 11 basis points. Of the $2.2 billion of interest income that we did not recognize for nonaccrual mortgage loans in the second quarter of 2010, $1.2 billion was related to the unsecuritized mortgage loans that we own.

Net interest income in the second quarter of 2010 also benefited from the recent purchase of the substantial majority of the loans that are four or more consecutive monthly payments delinquent from single-family MBS trusts as the cost of purchasing these delinquent loans and holding them in our portfolio is less than the cost of advancing delinquent payments to security holders.

Net interest income slightly increased in the first half of 2010 compared with the first half of 2009 primarily due to the recognition of contractual guaranty fees in interest income upon adoption of the new accounting standards and a reduction in interest expense related to debt that we have issued as we replaced higher-cost debt with lower-cost debt. The increase was partially offset by a reduction in net interest income due to the increase of non-performing loans on our condensed consolidated balance sheets and by lower interest income from the interest-earning assets that we own due to lower yields on our mortgage and non-mortgage assets. For the first half of 2010, the interest income that we did not recognize for nonaccrual mortgage loans, net of recoveries, was $4.9 billion, with a 30 basis point reduction in net interest yield, compared with $468 million for the first half of 2009, with an 11 basis point reduction in net interest yield. Of the $4.9 billion of interest income that we did not recognize for nonaccrual mortgage loans in the first half of 2010, $1.8 billion was related to the unsecuritized mortgage loans that we own.

Net interest yield significantly decreased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009. We recognize the contractual guaranty fee and the amortization of deferred cash fees received after December 31, 2009 on the underlying mortgage loans of consolidated trusts as interest income, which represents the spread between the net interest yield on the underlying mortgage assets and the rate on the debt of the consolidated trusts. Upon adoption of the new accounting standards, our interest-earning assets and interest-bearing liabilities both increased by approximately $2.4 trillion. The lower spread on these interest-earning assets and liabilities had the impact of reducing our net interest yield for the second quarter and first half of 2010 as compared to the second quarter and first half of 2009.

The net interest income for our Capital Markets group reflects interest income from the assets that we have purchased and the interest expense from the debt we have issued. See Business Segment Results for a detailed discussion of our Capital Markets group s net interest income.

Guaranty Fee Income

Guaranty fee income decreased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009 because we consolidated the substantial majority of our MBS trusts and we recognize interest income and expense, instead of guaranty fee income, from consolidated trusts. At adoption of the new accounting standards, our guaranty-related assets and liabilities pertaining to previously unconsolidated trusts were eliminated; therefore, we no longer recognize amortization of previously recorded deferred cash and non-cash fees or fair value adjustments related to our guaranty to these trusts. Guaranty fee income for the second quarter and first half of 2010 reflects guaranty fees earned from unconsolidated trusts and other credit enhancements arrangements, such as our long-term standby commitments.

We continue to report guaranty fee income for our Single-Family business and our HCD business as a separate line item in Business Segment Results.

Net Other-Than-Temporary Impairment

For the second quarter of 2010, net other-than-temporary impairment decreased compared with the second quarter of 2009, primarily as a result of lower impairment on Alt-A and subprime securities. See Note 6, Investments in Securities for additional information regarding the net other-than-temporary impairment recognized in the second quarter of 2010.

Net other-than-temporary impairment for the first half of 2010 significantly decreased compared with the first half of 2009, driven primarily by the adoption of a new accounting standard effective April 1, 2009. As a result of this accounting standard, beginning with the second quarter of 2009, we recognize only the credit portion of other-than-temporary impairment in our condensed consolidated statements of operations. Approximately 88% of the impairment recorded in the first half of 2009 was recorded in the first quarter of 2009 prior to the change in accounting standards. The net other-than-temporary impairment charge recorded in the first half of 2010 was driven by a decrease in the present value of our cash flow projections on Alt-A and subprime securities. The net other-than-temporary impairment charge recorded in the first half of 2009 before our adoption of this accounting standard included both the credit and non-credit components of the loss in fair value and was driven primarily by additional impairment losses on some of our Alt-A and subprime securities that we had previously impaired, as well as impairment losses on other Alt-A and subprime securities, due to continued deterioration in the credit quality of the loans underlying these securities and further declines in the expected cash flows.

Table of Contents

Fair Value Gains (Losses), Net

Table 9 presents the components of fair value gains and losses.

Table 9: Fair Value Gains (Losses), Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$ (756)	$ (779)	$ (1,591)	$ (1,719)
Net change in fair value during the period	936	155	(390)	(273)
Total risk management derivatives fair value gains (losses), net	180	(624)	(1,981)	(1,992)
Mortgage commitment derivatives fair value gains (losses), net	(577)	87	(1,178)	(251)
Total derivatives fair value losses, net	(397)	(537)	(3,159)	(2,243)
Trading securities gains, net	640	1,561	1,698	1,728
Debt foreign exchange gains (losses), net	54	(169)	77	(114)
Debt fair value gains (losses), net	6	(32)	(18)	(8)
Fair value gains (losses), net	$ 303	$ 823	$ (1,402)	$ (637)

	2010	2009
5-year swap interest rate:		
As of January 1	2.98%	2.13%
As of March 31	2.73	2.22
As of June 30	2.06	2.97

Risk Management Derivatives Fair Value Gains (Losses), Net

We supplement our issuance of debt securities with derivative instruments to further reduce duration and prepayment risks. We recorded derivative gains in the second quarter of 2010 primarily as a result of changes in implied interest rate volatility, partially offset by time decay on our purchased options.

We recorded derivative losses in the first half of 2010 primarily as a result of: (1) time decay on our purchased options; (2) a decrease in swap rates, which reduced the fair value of our pay-fixed derivatives; and (3) a decrease in implied interest rate volatility, which reduced the fair value of our purchased options.

During the second quarter and first half of 2009, increases in swap rates resulted in gains on our net pay-fixed swap position. These gains were more than offset by losses on our option-based derivatives as swap rate increases drove losses on our receive-fixed swaptions.

For additional information on our risk management derivatives, refer to Note 10, Derivative Instruments.

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

Commitments to purchase or sell some mortgage-related securities and to purchase single-family mortgage loans generally are derivatives and changes in their fair value are recognized in our condensed consolidated statements of operations. We recognized higher losses on our mortgage securities commitments in the second quarter and first half of 2010 compared to gains in the second quarter of 2009 and losses in the first half of 2009, due primarily to losses on commitments to sell as a result of increased mortgage-related securities prices during the commitment period.

Table of Contents

Trading Securities Gains, Net

Gains on trading securities in the second quarter and first half of 2010 were primarily driven by a decrease in interest rates and narrowing of credit spreads.

The gains on our trading securities during the second quarter and first half of 2009 were attributable to the narrowing of spreads on Commercial Mortgage-Backed Securities (CMBS), asset-backed securities, and corporate debt securities. Narrowing of spreads on agency MBS also contributed to the gains in the first half of 2009.

Losses from Partnership Investments

Losses from partnership investments decreased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009 as we have not recognized net operating losses or other-than-temporary impairment on our LIHTC investments in 2010. In the fourth quarter of 2009, we reduced the carrying value of our LIHTC investments to zero. As a result, we no longer recognize net operating losses or other-than-temporary impairment on our LIHTC investments. Losses from partnership investments recognized in the second quarter and first half of 2010 were due to other-than-temporary impairment on our other affordable housing investments.

Administrative Expenses

Administrative expenses increased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009 due to an increase in employees and third-party services primarily related to our foreclosure prevention and credit loss mitigation efforts.

Credit-Related Expenses

Credit-related expenses consist of the provision for loan losses, provision for guaranty losses and foreclosed property expense. We detail the components of our credit-related expenses in Table 10.

Table 10: Credit-Related Expenses

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Provision for loan losses	$ 4,295	$ 2,615	$ 16,234	$ 5,124
Provision for guaranty losses	69	15,610	33	33,435
Total provision for credit losses[(1)]	4,364	18,225	16,267	38,559
Foreclosed property expense	487	559	468	1,097
Credit-related expenses	$ 4,851	$ 18,784	$ 16,735	$ 39,656

(1)

Includes credit losses attributable to acquired credit-impaired loans and HomeSaver Advance fair value losses of $47 million and $2.2 billion for the three months ended June 30, 2010 and 2009, respectively, and $105 million and $3.7 billion for the six months ended June 30, 2010 and 2009, respectively.

Provision for Credit Losses

We summarize the changes in our combined loss reserves in Table 11. Upon recognition of the mortgage loans held by newly consolidated trusts on January 1, 2010, we increased our Allowance for loan losses and decreased our Reserve for guaranty losses. The impact at transition is reported as Adoption of new accounting standards in the table. The decrease in the combined loss reserves from transition represents a difference in the methodology used to estimate incurred losses for our allowance for loan losses as compared

Table of Contents

with our reserve for guaranty losses and our separate presentation of the portion of the allowance related to accrued interest as our Allowance for accrued interest receivable. These changes are discussed in Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities.

Table 11: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended June 30, 2010			2009	For the Six Months Ended June 30, 2010			2009
	Of Fannie Mae	Of Consolidated Trusts	Total		Of Fannie Mae	Of Consolidated Trusts	Total	
	(Dollars in millions)							
Changes in combined loss reserves:								
Allowance for loan losses:								
Beginning balance(1)	$ 25,675	$ 34,894	$ 60,569	$ 4,630	$ 8,078	$ 1,847	$ 9,925	$ 2,772
Adoption of new accounting standards						43,576	43,576	
Provision for loan losses	2,593	1,702	4,295	2,615	8,864	7,370	16,234	5,124
Charge-offs(2)	(4,446)	(1,947)	(6,393)	(672)	(6,151)	(5,402)	(11,553)	(1,309)
Recoveries	65	291	356	68	162	568	730	103
Transfers(3)	22,620	(22,620)			36,475	(36,475)		
Net reclassifications(1)(4)	(3,663)	5,418	1,755	(109)	(4,584)	6,254	1,670	(158)
Ending balance(1)(5)	$ 42,844	$ 17,738	$ 60,582	$ 6,532	$ 42,844	$ 17,738	$ 60,582	$ 6,532
Reserve for guaranty losses:								
Beginning balance	$ 233	$	$ 233	$ 36,876	$ 54,430	$	$ 54,430	$ 21,830
Adoption of new accounting standards					(54,103)		(54,103)	
Provision for guaranty losses	69		69	15,610	33		33	33,435
Charge-offs	(56)		(56)	(4,314)	(117)		(117)	(7,258)
Recoveries				108	3		3	273
Ending balance	$ 246	$	$ 246	$ 48,280	$ 246	$	$ 246	$ 48,280
Combined loss reserves:								
Beginning balance(1)	$ 25,908	$ 34,894	$ 60,802	$ 41,506	$ 62,508	$ 1,847	$ 64,355	$ 24,602
Adoption of new accounting standards					(54,103)	43,576	(10,527)	
Total provision for credit losses	2,662	1,702	4,364	18,225	8,897	7,370	16,267	38,559
Charge-offs(2)	(4,502)	(1,947)	(6,449)	(4,986)	(6,268)	(5,402)	(11,670)	(8,567)

Recoveries	65	291	356	176	165	568	733	376
Transfers[3]	22,620	(22,620)			36,475	(36,475)		
Net reclassifications[1][4]	(3,663)	5,418	1,755	(109)	(4,584)	6,254	1,670	(158)
Ending balance[1][5]	$ 43,090	$ 17,738	$ 60,828	$ 54,812	$ 43,090	$ 17,738	$ 60,828	$ 54,812
Attribution of charge-offs:								
Charge-offs attributable to guaranty book of business			$ (6,402)	$ (2,821)			$ (11,565)	$ (4,877)
Charge-offs attributable to fair value losses on:								
Acquired credit-impaired loans			(47)	(2,092)			(105)	(3,502)
HomeSaver Advance loans				(73)				(188)
Total charge-offs			$ (6,449)	$ (4,986)			$ (11,670)	$ (8,567)

33

	As of	
	June 30, 2010	December 31, 2009
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family[1]	$ 59,087	$ 62,312
Multifamily	1,741	2,043
Total	$ 60,828	$ 64,355
Single-family and multifamily loss reserves as a percentage of applicable guaranty book of business:		
Single-family[1]	2.06%	2.14%
Multifamily	0.94	1.10
Combined loss reserves as a percentage of:		
Total guaranty book of business[1]	1.99%	2.08%
Total nonperforming loans[1]	27.87	29.73

(1) Prior period amounts have been reclassified and respective percentages have been recalculated to conform to the current period presentation.

(2) Includes accrued interest of $611 million and $328 million for the three months ended June 30, 2010 and 2009, respectively and $1.2 billion and $575 million for the six months ended June 30, 2010 and 2009, respectively.

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

(4) Represents reclassification of amounts recorded in provision for loan losses and charge-offs that relate to allowance for accrued interest receivable and preforeclosure property taxes and insurance due from borrowers.

(5) Includes $637 million and $309 million as of June 30, 2010 and 2009, respectively, for acquired credit-impaired loans.

Our provision for credit losses decreased, in both the second quarter and first half of 2010 compared with the second quarter and first half of 2009, primarily due to the moderate change in our combined loss reserves during the second quarter and first half of 2010 compared with the substantial increase in our combined loss reserves during the second quarter and first half of 2009. The substantial increase in our combined loss reserves during the second quarter and first half of 2009 reflected the significant growth in the number of loans that were seriously delinquent during that period, which was partly the result of the economic deterioration during 2009. Our provision for credit losses was substantially lower in both the second quarter and first half of 2010, because the percentage of our loans that were seriously delinquent as of June 30, 2010 decreased compared to March 31, 2010 and December 31, 2009, which was partly the result of the home retention workouts and the foreclosure alternatives that we have completed along with the higher foreclosure volumes. However, our provision for credit losses and level of delinquencies, although lower through the second quarter and first half of 2010, remained high and our combined loss reserves remained high due to:

A high level of nonperforming loans, delinquencies, and defaults due to the general deterioration in our guaranty book of business. Factors contributing to these conditions include the following:

Continued stress on a broader segment of borrowers due to continued high levels of unemployment and underemployment and the prolonged decline in home prices has resulted in higher delinquency rates on loans in our single-family guaranty book of business that do not have characteristics typically associated with higher-risk loans.

Certain loan categories continued to contribute disproportionately to the increase in our nonperforming loans and credit losses. 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. Although we have identified each year of our 2005 through 2008 vintages as not profitable, the largest and most disproportionate contributors to credit losses are the 2006 and 2007 vintages. Accordingly, our concentration statistics throughout the MD&A display details for only these two vintages.

The prolonged decline in home prices has also resulted in negative home equity for some borrowers, especially when the impact of existing second mortgage liens is taken into account, which has affected their ability to refinance or willingness to make their mortgage payments, and caused higher delinquencies as shown in Table 39: Serious Delinquency Rates.

The number of loans that are seriously delinquent remained high due to delays in foreclosures because: (1) we require servicers to exhaust foreclosure prevention alternatives as part of our efforts to help borrowers stay in their homes; (2) recent legislation or judicial changes in the foreclosure process in a number of states have lengthened the foreclosure timeline; and (3) some jurisdictions are experiencing foreclosure processing backlogs due to high foreclosure case volumes. However, during the second quarter of 2010, the number of loans that transitioned out of seriously delinquent status exceeded the number of loans that became seriously delinquent, primarily due to the increase in loan modifications and foreclosure alternatives and higher volume of foreclosures.

A greater proportion of our combined loss reserves are attributable to individual impairment rather than the collective reserve for loan losses. We consider a loan to be individually impaired when, based on current information, it is probable that we will not receive all amounts due, including interest, in accordance with the contractual terms of the loan agreement. Individually impaired loans currently include, among others, those restructured in a troubled debt restructuring (TDR), which is a form of restructuring a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty. Any impairment recognized on these loans is part of our provision for loan losses and allowance for loan losses. The higher level of workouts initiated as a result of our foreclosure prevention efforts through the first half of 2010, including HAMP, increased our total number of individually impaired loans, especially those considered to be TDRs, compared with the second quarter and first half of 2009. Frequently, the allowance calculated for an individually impaired loan is greater than the allowance which would be calculated under the collective reserve. Individual impairment for TDRs is based on the restructured loan s expected cash flows over the life of the loan, discounted at the loan s original effective interest rate. The model includes forward looking assumptions using multiple scenarios of the future economic environment, including interest rates and home prices.

We recorded an out-of-period adjustment of $1.1 billion to our provision for loan losses in the second quarter and first half of 2010, related to an additional provision for losses on preforeclosure property taxes and insurance receivables. For additional information about this adjustment, please see Note 5, Allowance for Loan Losses and Reserve for Guaranty Losses.

While we acquired significantly more credit-impaired loans from MBS trusts in the second quarter and first half of 2010 compared with the second quarter and first half of 2009, we experienced a significant decline in fair value losses on acquired credit-impaired loans because of our adoption of the new accounting standards. Only purchases of credit-deteriorated loans from unconsolidated MBS trusts or as a result of other credit guarantees generate fair value losses upon acquisition. In the second quarter of 2010, we acquired approximately 570,000 loans from MBS trusts and during the first half of 2010, we acquired approximately 858,000 loans from MBS trusts.

While loans in certain states, certain higher-risk categories and our 2006 and 2007 vintages continue to contribute disproportionately to our credit losses, as displayed in Table 14, the portion of our combined loss reserves attributable to the Midwest remained flat, the portion attributable to our mortgage loans in California, Florida, Arizona and Nevada increased slightly, and the portion attributable to our Alt-A loans and our 2006 and 2007 loan vintages declined slightly as of June 30, 2010 compared with December 31, 2009, as the other portions of our guaranty book of business have generally deteriorated. The Midwest accounted for approximately 13% of our combined single-family loss reserves as of both June 30, 2010 and December 31, 2009. Our mortgage loans in California, Florida, Arizona and

Nevada together accounted for approximately 55% of our combined single-family loss reserves as of June 30, 2010, compared with approximately 53% as of December 31, 2009. Our Alt-A loans represented approximately 32% of our combined single-family loss reserves as of June 30, 2010, compared with approximately 35% as of December 31, 2009, and our 2006 and 2007 loan vintages together accounted for approximately 68% of our combined single-family loss reserves as of June 30, 2010, compared with approximately 69% as of December 31, 2009.

For additional discussions on delinquent loans and concentrations, see Risk Management Mortgage Credit Risk Management Single-Family Mortgage Credit Risk Management Problem Loan Management. For discussions on our charge-offs, see Consolidated Results of Operations Credit-Related Expenses Credit Loss Performance Metrics.

Our balance of nonperforming single-family loans remained high as of June 30, 2010 due to both high levels of delinquencies and an increase in TDRs. The composition of our nonperforming loans is shown in Table 12. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see Note 4, Mortgage Loans.

Table 12: Nonperforming Single-Family and Multifamily Loans

	As of	
	June 30, 2010	December 31, 2009
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 174,641	$ 34,079
Troubled debt restructurings on accrual status	38,969	6,922
HomeSaver Advance first-lien loans on accrual status	4,426	866
Total on-balance sheet nonperforming loans	218,036	41,867
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts:		
Nonperforming loans, excluding HomeSaver Advance first-lien loans[1]	201	161,406
HomeSaver Advance first-lien loans[2]	1	13,182
Total off-balance sheet nonperforming loans	202	174,588
Total nonperforming loans	$ 218,238	$ 216,455
Accruing on-balance sheet loans past due 90 days or more[3]	$ 833	$ 612

	For the Six Months Ended June 30, 2010	For the Year Ended December 31, 2009
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		

Interest income forgone[4]	$ 4,756	$ 1,341
Interest income recognized for the period[5]	3,449	1,206

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

(2) Represents all off-balance sheet first-lien loans associated with unsecured HomeSaver Advance loans, including first-lien loans that are not seriously delinquent.

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

(4) Represents the amount of interest income that would have been recorded during the period for on-balance sheet nonperforming loans as of the end of each period had the loans performed according to their original contractual terms.

(5) Represents interest income recognized during the period based on stated coupon rate for on-balance sheet loans classified as nonperforming as of the end of each period.

Foreclosed Property Expense

Foreclosed property expense decreased during the second quarter and first half of 2010 compared with the second quarter and first half of 2009. The decrease was due to the recognition of $211 million in the second quarter of 2010 and $773 million in the first half of 2010 from the cancellation and restructuring of some of our mortgage insurance coverage. These amounts represented an acceleration of, and discount on, claims to be paid pursuant to the coverage in order to reduce our future exposure to our mortgage insurers. In addition, during the second quarter of 2010, we began recording expenses related to preforeclosure property taxes and insurance to the provision for loan losses. The decrease in foreclosed property expense was partially offset by an increase in REO holding costs due to the continued rise in foreclosure activity which resulted in higher REO inventory and by an increase in valuation adjustments that reduced the value of our REO inventory.

Credit Loss Performance Metrics

Our credit-related expenses should be considered in conjunction with our credit loss performance. These credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with HomeSaver Advance loans and the acquisition of credit-impaired loans. We also exclude interest forgone on nonperforming loans in our mortgage portfolio, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses.

Historically, management viewed our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as indicators of the effectiveness of our credit risk management strategies. As our credit losses are now at such high levels, management has shifted focus away from the credit loss ratio to measure performance and has focused more on our loss mitigation strategies and the reduction of our credit losses on an absolute basis. However, we believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and are widely used by analysts, investors and other companies within the financial services industry. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans and HomeSaver Advance loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 13 details the components of our credit loss performance metrics as well as our average default rate and loss severity.

Table of Contents

Table 13: Credit Loss Performance Metrics

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2010		2009		2010		2009	
	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)
	(Dollars in millions)							
Charge-offs, net of recoveries(2)	$ 6,093	79.7bp	$ 4,810	63.4bp	$ 10,937	71.2bp	$ 8,191	54.3bp
Foreclosed property expense(2)	487	6.4	559	7.4	468	3.1	1,097	7.3
Credit losses including the effect of fair value losses on acquired credit-impaired loans and HomeSaver Advance loans	6,580	86.1	5,369	70.8	11,405	74.3	9,288	61.6
Less: Fair value losses resulting from acquired credit-impaired loans and HomeSaver Advance loans	(47)	(0.6)	(2,165)	(28.5)	(105)	(0.7)	(3,690)	(24.5)
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense	512	6.7	139	1.8	892	5.8	228	1.5
Credit losses and credit loss ratio	$ 7,045	92.2bp	$ 3,343	44.1bp	$ 12,192	79.4bp	$ 5,826	38.6bp
Credit losses attributable to:								
Single-family	$ 6,923		$ 3,301		$ 11,985		$ 5,766	
Multifamily	122		42		207		60	
Total	$ 7,045		$ 3,343		$ 12,192		$ 5,826	

Average default rate	0.53%	0.24%	0.99%	0.42%
Average loss severity rate(3)	34.30	39.10	34.80	37.50

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

(2) Beginning in the second quarter of 2010, expenses relating to preforeclosure taxes and insurance, previously recorded as foreclosed property expense, were recorded as charge-offs. The impact of including these costs was 6.0 and 3.0 basis points for the three and six months ended June 30, 2010, respectively.

(3) Excludes fair value losses on credit-impaired loans acquired from MBS trusts and HomeSaver Advance loans and charge-offs from preforeclosure sales.

The increase in our credit losses reflects the increase in the number of defaults, particularly due to the prolonged period of high unemployment, decline in home prices and our prior acquisition of loans with higher-risk attributes. However, defaults in the second quarter and first half of 2009 were lower than they could have been due to the foreclosure moratoria during the end of 2008 and first quarter of 2009. The increase in defaults during 2010 was partially offset by a slight reduction in average loss severity as home prices have improved in some geographic regions.

Table 14 provides an analysis of our credit losses in certain higher-risk loan categories, loan vintages and loans within certain states that continue to account for a disproportionate share of our credit losses as compared with our other loans.

Table of Contents

Table 14: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding as of[1]			Percentage of Single-Family Credit Losses			
				For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	June 30, 2010	December 31, 2009	June 30, 2009	2010	2009	2010	2009
Geographical distribution:							
Arizona, California, Florida and Nevada	28%	28%	28%	56%	57%	57%	57%
Illinois, Indiana, Michigan and Ohio	11	11	11	14	16	14	15
All other states	61	61	61	30	27	29	28
Select higher-risk product features[2]	23	24	26	64	70	64	71
Vintages:							
2006	9	11	12	30	32	30	32
2007	14	15	17	37	34	37	34
All other vintages	77	74	71	33	34	33	34

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

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

Our 2009 and 2010 vintages accounted for less than 1% of our single-family credit losses. Typically, credit losses on mortgage loans do not peak until the third through fifth years following origination. We provide more detailed credit performance information, including serious delinquency rates by geographic region, statistics on nonperforming loans and foreclosure activity in Risk Management Credit Risk Management Mortgage Credit Risk Management.

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with the Office of Federal Housing Enterprise Oversight, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States. Although other provisions of the September 2005 agreement were suspended in March 2009 by FHFA until further notice, this disclosure requirement was not suspended. For purposes of this calculation, we assume that, after the initial 5% shock, home price growth rates return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

Table 15 compares the credit loss sensitivities for the periods indicated for first lien single-family whole loans we own or that back Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancement.

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

	As of	
	June 30, 2010	December 31, 2009
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 23,786	$ 18,311
Less: Projected credit risk sharing proceeds	(3,163)	(2,533)
Net single-family credit loss sensitivity	$ 20,623	$ 15,778
Outstanding single-family whole loans and Fannie Mae MBS[2]	$ 2,783,453	$ 2,830,004
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.74%	0.56%

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on approximately 97% of our total single-family guaranty book of business as of both June 30, 2010 and December 31, 2009. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

(2) As a result of our adoption of the new accounting standards, the balance reflects a reduction as of June 30, 2010 from December 31, 2009 due to unscheduled principal payments.

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

Federal Income Taxes

We were not able to recognize an income tax benefit for our pre-tax loss in the second quarter and first half of 2010 as it is more likely than not that we will not generate sufficient taxable income in the foreseeable future to realize our net deferred tax assets. We recognized an income tax benefit in the first half of 2010 primarily due to the reversal of a portion of the valuation allowance for deferred tax assets resulting from a settlement agreement reached with the IRS for our unrecognized tax benefits for the tax years 1999 through 2004.

We recognized a provision for federal income taxes for the second quarter of 2009, which reflected our estimate of our annual effective tax rate. We recognized a tax benefit for the first half of 2009 due primarily to the benefit of carrying back a portion of our 2009 tax loss to prior years, net of the reversal of the use of certain tax credits.

Financial Impact of the Making Home Affordable Program on Fannie Mae

Home Affordable Refinance Program

Because we already own or guarantee the mortgage loans that we refinance under HARP, our expenses under that program consist mostly of limited administrative costs.

Home Affordable Modification Program

We discuss below how modifying loans under HAMP that we own or guarantee directly affects our financial results.

Impairments and Fair Value Losses on Loans Under HAMP

Table 16 provides information about the impairments and fair value losses associated with mortgage loans owned or guaranteed by Fannie Mae entering trial modifications under HAMP. These amounts have been included in the calculation of our credit-related expenses in our condensed consolidated statements of operations for 2009 and the second quarter and first half of 2010. Please see MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae in our 2009 Form 10-K for a detailed discussion on these impairments and fair value losses.

When we begin to individually assess a loan for impairment, we exclude the loan from the population of loans on which we calculate our collective loss reserves. Table 16 does not reflect the potential reduction of our combined loss reserves from excluding individually impaired loans from this calculation.

Table 16: Impairments and Fair Value Losses on Loans in HAMP[1]

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Impairments[2]	$ 2,239	$ 1,646	$ 9,802	$ 1,646
Fair value losses on credit-impaired loans acquired from MBS trusts[3]	2	89	6	89
Total	$ 2,241	$ 1,735	$ 9,808	$ 1,735
Loans entered into a trial modification under the program	24,900	34,700	116,600	34,700
Credit-impaired loans acquired from MBS trusts in trial modifications under the program[4]	14	655	58	655

(1) Includes amounts for loans that entered into a trial modification under the program but that have not yet received, or that have been determined to be ineligible for, a permanent modification under the program. Some of these ineligible loans have since been modified outside of the program. Also includes loans that entered into a trial modification prior to the end of the periods presented, but were reported from servicers to us subsequent to that date.

(2) Impairments consist of (a) impairments recognized on loans accounted for as loans restructured in a troubled debt restructuring and (b) incurred credit losses on loans in MBS trusts that have entered into a trial modification and been individually assessed for incurred credit losses. Amount includes impairments recognized subsequent to the date of loan acquisition.

(3) These fair value losses are recorded as charge-offs against the Reserve for guaranty losses and have the effect of increasing the provision for guaranty losses in our condensed consolidated statements of operations.

(4) Excludes loans purchased from consolidated trusts for the three and six months ended June 30, 2010 for which no fair value losses were recognized.

Servicer and Borrower Incentives

We incurred $143 million during the second quarter of 2010 and $238 million in the first half of 2010 in paid and accrued incentive fees for servicers and borrowers in connection with loans modified under HAMP, which we recorded as part of Other expenses.

Overall Impact of the Making Home Affordable Program

Because of the unprecedented nature of the circumstances that led to the Making Home Affordable Program, we cannot quantify what the impact would have been on Fannie Mae if the Making Home Affordable Program had not been introduced. We do not know how many loans we would have modified under alternative programs, what the terms or costs of those modifications would have been, how many foreclosures would have resulted nationwide, and at what pace, or the impact on housing prices if the program had not been put in place. As a result, the amounts we discuss above are not intended to measure how much the program is costing us in comparison to what it would have cost us if we did not have the program at all.

BUSINESS SEGMENT RESULTS

In this section, we discuss changes to our presentation for reporting results for our three business segments, Single-Family, HCD and Capital Markets, which have been revised due to our prospective adoption of the new accounting standards. We then discuss our business segment results. You should read this section together with our condensed consolidated results of operations in Consolidated Results of Operations.

Changes to Segment Reporting

Our prospective adoption of the new accounting standards had a significant impact on the presentation and comparability of our condensed consolidated financial statements due to the consolidation of the substantial majority of our single-class securitization trusts and the elimination of previously recorded deferred revenue from our guaranty arrangements. We continue to manage Fannie Mae based on the same three business segments; however, effective in 2010 we changed the presentation of segment financial information that is currently evaluated by management.

While some line items in our segment results were not impacted by either the change from the new accounting standards or changes to our segment presentation, others were impacted materially, which reduces the comparability of our segment results with prior years. We have not restated prior year results nor have we presented current year results under the old presentation as we determined that it was impracticable to do so; therefore, our segment results reported in the current period are not comparable with prior years. In the table below, we compare our current segment reporting for our three business segments with our segment reporting in the prior year.

Segment Reporting in Current Periods Compared with Prior Year

Line Item	Single-Family and HCD Current Segment Reporting	Prior Year Segment Reporting
Guaranty fee income	At adoption of the new accounting standards, we eliminated a substantial majority of our guaranty-related assets and liabilities in our consolidated balance sheet. We re-established an asset and a liability related to the deferred cash fees on Single-Family s balance sheet and we amortize these fees as guaranty fee income with our contractual guaranty fees.	At the inception of a guaranty to an unconsolidated entity, we established a guaranty asset and guaranty obligation, which included deferred cash fees. These guaranty-related assets and liabilities were then amortized and recognized in guaranty fee income with our contractual guaranty fees over the life of the guaranty.
	We use a static yield method to amortize deferred cash fees to better align with the recognition of contractual guaranty fee income.	We used a prospective level yield method to amortize our guaranty-related assets and liabilities, which created significant fluctuations in our guaranty fee income as the interest rate environment shifted.

	We eliminated substantially all of our guaranty assets that were previously recorded at fair value upon adoption of the new accounting standards. As such, the recognition of fair value adjustments as a component of Single-Family guaranty fee income has been essentially eliminated.	We recorded fair value adjustments on our buy-up assets and certain guaranty assets as a component of Single-Family guaranty fee income.

Single-Family and HCD

Line Item	Current Segment Reporting	Prior Year Segment Reporting
Net Interest Income	Because we now recognize loans underlying the substantial majority of our MBS trusts in our condensed consolidated balance sheets, the amount of interest expense Single-Family and HCD recognize related to forgone interest on nonperforming loans underlying MBS trusts has significantly increased.	Interest payments expected to be delinquent on off-balance sheet nonperforming loans were considered in the reserve for guaranty losses.
Credit-related expenses	Because we now recognize loans underlying the substantial majority of our MBS trusts in our condensed consolidated balance sheets, we no longer recognize fair value losses upon acquiring credit-impaired loans from these trusts.	We recorded a fair value loss on credit-impaired loans acquired from MBS trusts.
	Upon recognition of mortgage loans held by newly consolidated trusts, we increased our allowance for loan losses and decreased our reserve for guaranty losses. We use a different methodology in estimating incurred losses under our allowance for loan losses versus under our reserve for guaranty losses which will result in lower credit-related expenses.	The majority of our combined loss reserves were recorded in the reserve for guaranty losses, which used a different methodology for estimating incurred losses versus the methodology used for the allowance for loan losses.

HCD only

Line Item	Current Segment Reporting	Prior Year Segment Reporting
Losses from partnership investments	We report losses from partnership investments on an equity basis in the HCD balance sheet. As a result, net income or loss attributable to noncontrolling interests is not included in losses from partnership investments.	Losses from partnership investments included net income or loss attributable to noncontrolling interests for the HCD segment.

Capital Markets

Line Item	Current Segment Reporting	Prior Year Segment Reporting
Net interest income		

	We recognize interest income on interest-earning assets that we own and interest expense on debt that we have issued.	In addition to the assets we own and the debt we issue, we also included interest income on mortgage-related assets underlying MBS trusts that we consolidated under the prior consolidation accounting standards and the interest expense on the corresponding debt of such trusts.
Investment gains and losses, net	We no longer designate the substantial majority of our loans held for securitization as held for sale as the substantial majority of related MBS trusts will be consolidated, thereby reducing lower of cost or fair value adjustments.	We designated loans held for securitization as held for sale resulting in recognition of lower of cost or fair value adjustments on our held-for-sale loans.
	We include the securities that we own, regardless of whether the trust has been consolidated, in reporting gains and losses on securitizations and sales of available-for-sale securities.	We excluded the securities of consolidated trusts that we owned in reporting of gains and losses on securitizations and sales of available-for-sale securities.
Fair value gains and losses, net	We include the trading securities that we own, regardless of whether the trust has been consolidated, in recognizing fair value gains and losses on trading securities.	MBS trusts that were consolidated were reported as loans and thus any securities we owned issued by these trusts did not have fair value adjustments.

Under the current segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations.

Segment Results

Table 17 displays our segment results under our current segment reporting presentation for the second quarter and the first half of 2010.

Table 17: Business Segment Results

	For the Three Months Ended June 30, 2010					
	Business Segments			Other Activity/Reconciling Items		
	Single Family	HCD	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (expense)	$ (1,385)	$ 5	$ 3,549	$ 1,282	$ 756[3]	$ 4,207
Benefit (provision) for loan losses	(4,319)	24				(4,295)
Net interest income (expense) after provision for loan losses	(5,704)	29	3,549	1,282	756	(88)
Guaranty fee income (expense)	1,795	195	(360)	(1,130)[4]	(448)[4]	52
Investment gains (losses), net	2	(1)	779	(28)	(729)[5]	23
Net other-than-temporary impairments			(137)			(137)
Fair value gains (losses), net			631	11	(339)[6]	303
Debt extinguishment losses, net			(128)	(31)		(159)
Losses from partnership investments		(22)			(4)	(26)
Fee and other income (expense)	85	28	136	(7)		242
Administrative expenses	(436)	(93)	(141)			(670)
Benefit (provision) for guaranty losses	(73)	4				(69)
Foreclosed property expense	(479)	(8)				(487)
Other income (expenses)	(259)	(11)	91		(19)[7]	(198)
Income (loss) before federal income taxes	(5,069)	121	4,420	97	(783)	(1,214)
Provision (benefit) for federal income taxes	(1)	2	8			9

Net income (loss)	(5,068)	119	4,412	97	(783)	(1,223)
Less: Net loss attributable to noncontrolling interests					5(8)	5
Net income (loss) attributable to Fannie Mae	$ (5,068)	$ 119	$ 4,412	$ 97	$ (778)	$ (1,218)

	For the Six Months Ended June 30, 2010					
	Business Segments			Other Activity/Reconciling Items		
	Single Family	HCD	Capital Markets	Consolidated Trusts(1)	Eliminations/ Adjustments(2)	Total Results
	(Dollars in millions)					
Net interest income (expense)	$ (3,330)	$ 9	$ 6,606	$ 2,521	$ 1,190(3)	$ 6,996
Benefit (provision) for loan losses	(16,264)	30				(16,234)
Net interest income (expense) after provision for loan losses	(19,594)	39	6,606	2,521	1,190	(9,238)
Guaranty fee income (expense)	3,563	389	(639)	(2,327)(4)	(880)(4)	106
Investment gains (losses), net	4	(1)	1,571	(183)	(1,202)(5)	189
Net other-than-temporary impairments			(373)			(373)
Fair value losses, net			(555)	(24)	(823)(6)	(1,402)
Debt extinguishment losses, net			(183)	(100)		(283)
Losses from partnership investments		(80)			(4)	(84)
Fee and other income (expense)	132	63	240	(14)		421
Administrative expenses	(826)	(192)	(257)			(1,275)
Benefit (provision) for guaranty losses	(84)	51				(33)
Foreclosed property expense	(449)	(19)				(468)
Other income (expenses)	(431)	(17)	118		(40)(7)	(370)
Income (loss) before federal income taxes	(17,685)	233	6,528	(127)	(1,759)	(12,810)
Provision (benefit) for federal income taxes	(52)	15	(21)			(58)
Net income (loss)	(17,633)	218	6,549	(127)	(1,759)	(12,752)
Less: Net loss attributable to noncontrolling interests					4(8)	4
Net income (loss) attributable to Fannie Mae	$ (17,633)	$ 218	$ 6,549	$ (127)	$ (1,755)	$ (12,748)

(1) Represents activity related to the assets and liabilities of consolidated trusts in our balance sheet under the new accounting standard.

(2)

Represents the elimination of intercompany transactions occurring between the three business segments and our consolidated trusts, as well as other adjustments to reconcile to our condensed consolidated results.

(3) Represents the amortization expense of cost basis adjustments on securities that we own in our portfolio that on a GAAP basis are eliminated.

(4) Represents the guaranty fees paid from consolidated trusts to the Single-Family and HCD segments. The adjustment to guaranty fee income in the Eliminations/Adjustments column represents the elimination of the amortization of deferred cash fees related to consolidated trusts that were re-established for segment reporting.

(5) Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as available-for-sale securities that are issued by consolidated trusts and retained in the Capital Markets portfolio. The adjustment also includes the removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.

(6) Represents the removal of fair value adjustments on consolidated Fannie Mae MBS classified as trading that are retained in the Capital Markets portfolio.

(7) Represents the removal of amortization of deferred revenue on certain credit enhancements from the Single-Family and HCD segment balance sheets that are eliminated upon reconciliation to our condensed consolidated balance sheets.

(8) Represents the adjustment from equity method accounting to consolidation accounting for partnership investments that are consolidated in our condensed consolidated balance sheets.

Single-Family Business Results

Table 18 summarizes the financial results of the Single-Family business for the second quarter and the first half of 2010 under the current segment reporting presentation and for the second quarter and the first half of 2009 under the prior segment reporting presentation. The primary sources of revenue for our Single-Family business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses and administrative expenses.

Table 18: Single-Family Business Results

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Statement of operations data:[1]				
Net interest income (expense)	$ (1,385)	$ 186	$ (3,330)	$ 201
Guaranty fee income[2]	1,795	1,865	3,563	3,831
Credit-related expenses[3]	(4,871)	(18,391)	(16,797)	(38,721)
Other expenses[4]	(608)	(438)	(1,121)	(792)
Loss before federal income taxes	(5,069)	(16,778)	(17,685)	(35,481)
Benefit for federal income taxes	1	138	52	783
Net loss attributable to Fannie Mae	$ (5,068)	$ (16,640)	$ (17,633)	$ (34,698)
Other key performance data:				
Single-family effective guaranty fee rate (in basis points)[1][5]	25.0	26.1	24.7	27.0
Single-family average charged fee on new acquisitions (in basis points)[6]	27.3	23.7	27.1	22.5
Average single-family guaranty book of business[7]	$ 2,871,208	$ 2,855,504	$ 2,884,767	$ 2,837,800
Single-family Fannie Mae MBS issues[8]	$ 111,457	$ 311,171	$ 235,814	$ 463,114

(1) Segment statement of operations data reported under the current segment reporting basis is not comparable to the segment statement of operations data reported in prior periods.

(2) In 2010, guaranty fee income related to consolidated MBS trusts consists of contractual guaranty fees and the amortization of deferred cash fees using a static effective yield method. In 2009, guaranty fee income consisted of amortization of our guaranty-related assets and liabilities using a prospective yield method and fair value adjustments of buys-ups and certain guaranty assets.

(3) Consists of the provision for loan losses, provision for guaranty losses and foreclosed property income or expense.

(4) Consists of investment gains and losses, fee and other income, other expenses, and administrative expenses.

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

(6) Presented in basis points. Represents the average contractual fee rate for our single-family guarantee arrangements plus the recognition of any upfront cash payments ratably over an estimated average life.

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

(8) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment. In 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac in which we agreed to provide assistance to state and local housing finance agencies (HFAs) through three separate assistance programs: a temporary credit and liquidity facilities (TCLF) program, a new issue bond (NIB) program and a multifamily credit enhancement program. Includes HFA new issue bond program issuances of $3.1 billion for the first half of 2010. We did not have any HFA new issue bond program issuances in the second quarter of 2010.

Table of Contents

Net Interest Income (Expense)

Net interest income (expense) for the Single-Family business segment includes forgone interest on nonperforming loans, loss recoveries on performing loans, and an allocated cost of capital charge between our three business segments. In the second quarter and the first half of 2010, net interest expense was primarily driven by an increase in forgone interest on nonperforming loans, which increased to $2.2 billion in the second quarter of 2010 from $240 million in the second quarter of 2009 and to $4.8 billion in the first half of 2010 from $457 million in the first half of 2009. The increase in forgone interest on nonperforming loans was due to the increase in nonperforming loans in our condensed consolidated balance sheets as a result of our adoption of the new accounting standards.

Guaranty Fee Income

Guaranty fee income decreased in the second quarter and the first half of 2010 compared with the second quarter and the first half of 2009, primarily because: (1) we now amortize our single-family deferred cash fees under the static yield method, which resulted in lower amortization income compared with 2009 when we amortized these fees under the prospective level yield method; (2) guaranty fee income in 2009 included the amortization of certain non-cash deferred items, the balance of which was eliminated upon adoption of the new accounting standards and was not re-established on Single-Family s balance sheet at the transition date; and (3) guaranty fee income in the second quarter and the first half of 2009 reflected an increase in the fair value of buy-ups and certain guaranty assets which are no longer marked to fair value under the new segment reporting.

The average single-family guaranty book of business increased by 0.5% for the second quarter of 2010 compared with the second quarter of 2009 and 1.7% for the first half of 2010 compared with the first half of 2009 due to increases in our average outstanding Fannie Mae MBS and other guarantees throughout 2009 and the first half of 2010 as our market share of new single-family mortgage securities issuances remained high and new MBS issuances outpaced liquidations.

The average single-family charged guaranty fee on new acquisitions increased in the second quarter and the first half of 2010 compared with the second quarter and the first half of 2009 primarily due to an increase in acquisitions of loans with characteristics that receive risk-based pricing adjustments.

Credit-Related Expenses

Single-family credit-related expenses decreased, in both the second quarter and the first half of 2010 compared with the second quarter and the first half of 2009, primarily due to the moderate change in our combined loss reserves during the second quarter and first half of 2010 compared with the substantial increase in our combined loss reserves during the second quarter and first half of 2009. Additionally, because we now recognize loans underlying the substantial majority of our MBS trusts in our condensed consolidated balance sheets, we no longer recognize fair value losses upon acquiring credit-impaired loans from these trusts. Although our credit-related expenses declined in the second quarter and the first half of 2010, our charge-offs were higher in the second quarter and the first half of 2010 compared with the second quarter and the first half of 2009 due to an increase in the number of defaults.

Credit-related expenses in the Single-Family business represent the substantial majority of our total consolidated losses. We provide additional information on our credit-related expenses in Consolidated Results of Operations Credit-Related Expenses.

Federal Income Taxes

We recognized an income tax benefit in the first half of 2010 due to the reversal of a portion of the valuation allowance for deferred tax assets primarily due to a settlement agreement reached with the IRS in 2010 for our

Table of Contents

unrecognized tax benefits for the tax years 1999 through 2004. The tax benefit recognized for the second quarter and the first half of 2009 was primarily due to the benefit of carrying back to prior years a portion of our 2009 tax loss, net of the reversal of the use of certain tax credits.

HCD Business Results

Table 19 summarizes the financial results for our HCD business for the second quarter and the first half of 2010 under the current segment reporting presentation and for the second quarter and the first half of 2009 under the prior segment reporting presentation. The primary sources of revenue for our HCD business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses, net operating losses associated with our partnership investments, and administrative expenses.

Table 19: HCD Business Results

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Statement of operations data:[1]				
Guaranty fee income[2]	$ 195	$ 164	$ 389	$ 322
Fee and other income	28	20	63	47
Losses on partnership investments[3]	(22)	(571)	(80)	(928)
Credit-related income (expenses)[4]	20	(393)	62	(935)
Other expenses[5]	(100)	(133)	(201)	(302)
Income (loss) before federal income taxes	121	(913)	233	(1,796)
Provision for federal income taxes	(2)	(43)	(15)	(211)
Net income (loss)	119	(956)	218	(2,007)
Less: Net loss attributable to the noncontrolling interests[3]		26		43
Net income (loss) attributable to Fannie Mae	$ 119	$ (930)	$ 218	$ (1,964)
Other key performance data:				
Multifamily effective guaranty fee rate (in basis points)[1][6]	41.9	37.0	41.9	36.6
Credit loss performance ratio (in basis points)[7]	26.2	9.5	22.3	6.8
Average multifamily guaranty book of business[8]	$ 186,105	$ 177,475	$ 185,841	$ 176,089
Multifamily Fannie Mae MBS issues[9]	$ 2,727	$ 4,740	$ 6,801	$ 7,117

	As of	
	June 30, 2010	December 31, 2009
	(Dollars in millions)	

Multifamily Fannie Mae MBS Outstanding[10]	$ 61,972	$ 59,852

(1) Segment statement of operations data reported under the current segment reporting basis is not comparable to the segment statement of operations data reported in prior periods.

(2) In 2010, guaranty fee income related to consolidated MBS trusts consists of contractual guaranty fees. In 2009, guaranty fee income consisted of amortization of our guaranty-related assets and liabilities using a prospective yield method.

(3) In 2010, income or loss from partnership investments is reported using the equity method of accounting. As a result, net income or loss attributable to noncontrolling interests from partnership investments is not included in gains or losses for the HCD segment. In 2009, income or loss from partnership investments is reported using either the equity method or consolidation, in accordance with GAAP, with net income or losses attributable to noncontrolling interests included in partnership investments income or loss.

(4) Consists of the provision for loan losses, provision for guaranty losses and foreclosed property expense.

(5) Consists of net interest income, investment losses, other expenses, and administrative expenses.

(6) Presented in basis points based on annualized HCD segment guaranty fee income divided by the average multifamily guaranty book of business.

(7) Basis points are based on the annualized amount for credit losses divided by the average multifamily guaranty book of business.

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

(9) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the HCD segment. Includes HFA new issue bond program issuances of $1.0 billion for the first half of 2010. We did not have any HFA new issue bond program issuances in the second quarter of 2010. Also includes $256 million of new MBS issuances as a result of converting adjustable rate loans to fixed rate loans in the second quarter and the first half of 2010.

(10) Includes $9.8 billion of Fannie Mae multifamily MBS held in the mortgage portfolio and $1.4 billion of bonds issued by HFAs as of June 30, 2010.

Guaranty Fee Income

HCD guaranty fee income increased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009 primarily attributable to higher fees charged on new acquisitions in recent years, which have become an increasingly larger part of our book of business.

Losses from Partnership Investments

In the fourth quarter of 2009, we reduced the carrying value of our LIHTC investments to zero. As a result, we no longer recognize net operating losses or other-than-temporary impairment on our LIHTC investments, which resulted in lower losses in the second quarter and the first half of 2010 compared with the second quarter and the first half of 2009. Losses from partnership investments recognized in the second quarter and the first half of 2010 were due to other-than-temporary impairment on our other affordable housing investments.

Credit-Related Income (Expenses)

The shift from credit-related expenses in the second quarter and first half of 2009 to credit-related income in the second quarter and first half of 2010 was a result of a slight decline in multifamily combined loss reserve levels in the second quarter and first half of 2010 compared to an increase in these reserves in the second quarter and first half of 2009. We recognized a significant increase in our combined multifamily loss reserves in the second quarter and first half of 2009 as a result of the economic downturn and lack of liquidity in the market, which adversely affected multifamily property values, vacancy rates and rent levels, the cash flows generated from these investments and refinancing options. In the second quarter and first half of 2010, the combined multifamily loss reserves have decreased slightly as a result of stabilization in cap rates, the use of more current property level financial data, and an improvement in multifamily market fundamentals relative to previously depressed levels.

Although the pace of decline in the multifamily housing market has moderated, our multifamily net charge-offs and foreclosed property expense increased from $42 million in the second quarter of 2009 to $122 million in the second quarter of 2010 and from $60 million in the first half of 2009 to $207 million in the first half of 2010. The increase in net charge-offs and foreclosed property expense was driven by sustained unfavorable economic conditions and the related adverse impact on multifamily fundamentals, which led to increased delinquencies and defaults over the past year.

Federal Income Taxes

We recognized a provision for income taxes in the first half of 2010 resulting from a settlement agreement reached with the IRS with respect to our unrecognized tax benefits for tax years 1999 through 2004. The tax provision recognized for the second quarter and the first half of 2009 was attributable to the reversal of previously utilized tax credits because of our ability to carry back to prior years net operating losses.

Capital Markets Group Results

Table 20 summarizes the financial results for our Capital Markets group for the second quarter and the first half of 2010 under the current segment reporting presentation and for the second quarter and the first half of 2009 under the prior segment reporting presentation. Following the table we discuss the Capital Markets group s financial results and describe the Capital Markets group s mortgage portfolio. For a discussion on the debt issued by the Capital Markets group to fund its investment activities, see Liquidity and Capital Management. For a discussion on the derivative instruments that Capital Markets uses to manage interest rate risk, see Consolidated Balance Sheet Analysis Derivative Instruments, Risk Management Market Risk Management, Including Interest Rate Risk Derivatives Activity, and Note 10, Derivative Instruments. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, other-than-temporary impairment, and administrative expenses.

Table 20: Capital Markets Group Results

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(Dollars in millions)			
Statement of operations data:[(1)]				
Net interest income[(2)]	$ 3,549	$ 3,600	$ 6,606	$ 6,895
Investment gains (losses), net[(3)(4)]	779	(30)	1,571	120
Net other-than-temporary impairments[(3)]	(137)	(753)	(373)	(6,406)
Fair value gains (losses), net[(5)]	631	823	(555)	(637)
Fee and other income	136	71	240	140
Other expenses[(6)]	(538)	(777)	(961)	(1,400)
Income (loss) before federal income taxes	4,420	2,934	6,528	(1,288)
Benefit (provision) for federal income taxes	(8)	(118)	21	28
Net income (loss) attributable to Fannie Mae	$ 4,412	$ 2,816	$ 6,549	$ (1,260)

(1) Segment statement of operations data reported under the current segment reporting basis is not comparable to the segment statement of operations data reported in prior periods.

(2) In 2010, Capital Markets net interest income is reported based on the mortgage-related assets held in the segment s portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned

by third parties and the interest expense on the corresponding debt of such trusts. In 2009, the Capital Markets group s net interest income included interest income on mortgage-related assets underlying MBS trusts that we consolidated under the prior consolidation accounting standards and the interest expense on the corresponding debt of such trusts.

(3) Certain prior period amounts have been reclassified to conform to our current period presentation.

(4) In 2010, we include the securities that we own regardless of whether the trust has been consolidated in reporting of gains and losses on securitizations and sales of available-for-sale securities. In 2009, we excluded the securities of consolidated trusts that we own in reporting of gains and losses on securitizations and sales of available-for-sale securities.

(5) In 2010, fair value gains or losses on trading securities include the trading securities that we own, regardless of whether the trust has been consolidated. In 2009, MBS trusts that were consolidated were reported as loans and thus any securities we owned issued by these trusts did not have fair value adjustments.

(6) Includes allocated guaranty fee expense, debt extinguishment losses, net, administrative expenses, and other expenses. In 2010, gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded from the Capital Markets group because purchases of securities are recognized as such. In 2009, gains or losses related to the extinguishment of debt issued by consolidated trusts were included in the Capital Markets group s results as debt extinguishment gain or loss.

Net Interest Income

The Capital Markets group s interest income consists of interest on the segment s interest-earning assets, which differs from interest-earning assets in our condensed consolidated balance sheets. We exclude loans and securities that underlie the consolidated trusts from our Capital Markets group balance sheets. The net interest income reported by the Capital Markets group excludes the interest income earned on assets held by consolidated trusts. As a result, we report interest income and amortization of cost basis adjustments only on securities and loans that are held in our portfolio. For mortgage loans held in our portfolio, after we stop recognizing interest income in accordance with our nonaccrual accounting policy, the Capital Markets group recognizes interest income for reimbursement from Single-Family and HCD for the contractual interest due under the terms of our intracompany guaranty arrangement.

Capital Markets group s interest expense consists of contractual interest on the Capital Markets group s interest-bearing liabilities, including the accretion and amortization of any cost basis adjustments. It excludes interest expense on debt issued by consolidated trusts. Therefore, the interest expense recognized on the Capital Markets group income statement is limited to our funding debt, which is reported as Debt of Fannie Mae in our condensed consolidated balance sheets. Net interest expense also includes an allocated cost of capital charge between the three business segments.

The Capital Markets group s net interest income decreased in the second quarter and first half of 2010 compared with the second quarter and first half of 2009 because the decline in the interest yield on our average interest-earning assets more than offset the decline in borrowing rates as we replaced higher-cost debt with lower-cost debt. In addition, Capital Markets net interest income and net interest yield benefited from funds we received from Treasury under the senior preferred stock purchase agreement as the cash received was used to reduce our debt and the cost of these funds is included in dividends rather than interest expense.

We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in Capital Markets net interest income but is included in our results as a component of Fair value gains (losses), net and is shown in Table 9: Fair Value Gains (Losses), Net. If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets interest expense, Capital Markets net interest income would have decreased by $756 million in the second quarter of 2010 compared with a $779 million decrease in the second quarter of 2009 and a $1.6 billion decrease in the first half of 2010 compared with a $1.7 billion decrease in the first half of 2009.

Investment Gain (Losses), Net

The shift from investment losses in the second quarter of 2009 to investment gains in the second quarter of 2010 and the increase in investment gains in the first half of 2010 compared with the first half of 2009 was primarily driven by an increase in gains on sales of available-for-sale securities as well as from a significant decline in lower of cost or fair value adjustments on held-for-sale loans as we reclassified almost all of these loans to held-for-investment upon adoption of the new accounting standards.

Fair Value Gains (Losses), Net

The derivative gains and losses and foreign exchange gains and losses that are reported for the Capital Markets group are consistent with these same losses reported in our condensed consolidated results of operations. We discuss details of these components of fair value gains and losses in Consolidated Results of Operations Fair Value Gains (Losses), Net.

The gains on our trading securities for the segment during the second quarter and first half of 2010 were driven by a decrease in interest rates and narrowing of credit spreads.

The gains on our trading securities during the second quarter and first half of 2009 were attributable to the narrowing of spreads on CMBS, asset-backed securities, and corporate debt securities. Narrowing of spreads on agency MBS also contributed to the gains in the first half of 2009.

Net Other-Than-Temporary Impairment

The net other-than-temporary impairment recognized by the Capital Markets group is consistent with the net other-than-temporary impairment reported in our condensed consolidated results of operations. We discuss details on net other-than-temporary impairment in Consolidated Results of Operations Net Other-Than-Temporary Impairment.

Federal Income Taxes

We recognized an income tax benefit in the first half of 2010 primarily due to the reversal of a portion of the valuation allowance for deferred tax assets resulting from a settlement agreement reached with the IRS in the first quarter of 2010 for our unrecognized tax benefits for the tax years 1999 through 2004. We recorded a tax provision for the second quarter of 2009 and a tax benefit for the first half of 2009. We recorded a valuation allowance for the majority of the tax benefits associated with the pre-tax income or losses recognized in the second quarter and first half of 2009.

The Capital Markets Group s Mortgage Portfolio

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

We are restricted by our senior preferred stock purchase agreement with Treasury in the amount of mortgage assets that we may own. Beginning on December 31, 2010 and each year thereafter, we are required to reduce our Capital Markets group s mortgage portfolio to no more than 90% of the maximum allowable amount we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of mortgage assets we own declines to no more than $250 billion. The maximum allowable amount we may own prior to December 31, 2010 is $900 billion and on December 31, 2010 is $810 billion.

Table 21 summarizes our Capital Markets group s mortgage portfolio activity based on unpaid principal balance for the three and six months ended June 30, 2010.

Table 21: Capital Markets Group s Mortgage Portfolio Activity

	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010
	(Dollars in millions)	
Mortgage loans:		
Beginning balance	$ 330,277	$ 281,162
Purchases	130,028	200,589
Securitizations(1)	(13,912)	(28,166)
Liquidations(2)	(20,208)	(27,400)
Mortgage loans, ending balance	426,185	426,185
Mortgage securities:		
Beginning balance	$ 434,532	$ 491,566
Purchases(3)	4,678	33,864
Securitizations(1)	13,912	28,166
Sales	(35,604)	(115,388)
Liquidations(2)	(25,903)	(46,593)
Mortgage securities, ending balance	391,615	391,615
Total Capital Markets mortgage portfolio, ending balance	$ 817,800	$ 817,800

(1) Includes portfolio securitization transactions that do not qualify for sale treatment under the new accounting standards on the transfers of financial assets.

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

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

In the first quarter of 2010, we began to significantly increase our purchases of delinquent loans from single-family MBS trusts. Under our single-family MBS trust documents, we have the option to purchase from MBS trusts loans that are delinquent as to four or more consecutive monthly payments. Through June 30, 2010, we had purchased the substantial majority of our delinquent loan population which resulted in an increase in our Capital Market s mortgage portfolio. We purchased approximately 858,000 delinquent loans with an unpaid principal balance of approximately $170 billion from single-family MBS trusts in the first half of 2010 including the purchase of approximately 570,000 delinquent loans with an unpaid principal balance of approximately $114 billion in the second quarter of 2010.

We expect to continue to purchase loans from our single-family MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, servicer capacity, and other constraints including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. As of June 30, 2010, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was approximately $9 billion. In July 2010, we purchased approximately 50,000 delinquent loans with an unpaid principal balance of approximately $9 billion from our single-family MBS trusts.

Table 22 shows the composition of the Capital Markets group s mortgage portfolio based on unpaid principal balance as of June 30, 2010 and as of January 1, 2010, immediately after we adopted the new accounting standards.

Table of Contents

Table 22: Capital Markets Group s Mortgage Portfolio Composition

	As of	
	June 30, 2010	January 1, 2010
	(Dollars in millions)	
Capital Markets Group s mortgage loans:		
Single-family loans		
Government insured or guaranteed	$ 51,771	$ 51,395
Conventional:		
Long-term, fixed-rate	218,631	94,236
Intermediate-term, fixed-rate	10,631	8,418
Adjustable-rate	38,111	18,493
Total conventional single-family	267,373	121,147
Total single-family loans	319,144	172,542
Multifamily loans		
Government insured or guaranteed	479	521
Conventional:		
Long-term, fixed-rate	4,874	4,941
Intermediate-term, fixed-rate	80,335	81,610
Adjustable-rate	21,353	21,548
Total conventional multifamily	106,562	108,099
Total multifamily loans	107,041	108,620
Total Capital Markets Group s mortgage loans[1]	426,185	281,162
Capital Markets Group s mortgage-related securities:		
Fannie Mae	282,186	358,495
Freddie Mac	21,217	41,390
Ginnie Mae	1,633	1,255
Alt-A private-label securities	23,714	25,133
Subprime private-label securities	18,929	20,001
CMBS	25,577	25,703
Mortgage revenue bonds	13,504	14,448
Other mortgage-related securities	4,855	5,141
Total Capital Markets Group s mortgage-related securities[2]	391,615	491,566
Total Capital Markets Group s mortgage portfolio	$ 817,800	$ 772,728

(1) The total unpaid principal balance of nonperforming loans in the Capital Markets Group s mortgage loans was $216.2 billion as of June 30, 2010.

(2) The fair value of these mortgage-related securities was $396.4 billion as of June 30, 2010.

CONSOLIDATED BALANCE SHEET ANALYSIS

As discussed in Executive Summary, effective January 1, 2010, we prospectively adopted new accounting standards which had a significant impact on the presentation of our condensed consolidated financial statements due to the consolidation of the substantial majority of our single-class securitization trusts. In the table below, we summarize the primary impacts of the new accounting standards to our condensed consolidated balance sheet for 2010.

Item	Consolidation Impact
Restricted cash	We recognize unscheduled cash payments that have been either received by the servicer or that are held by consolidated trusts and have not yet been remitted to MBS certificateholders.
Investments in securities	Fannie Mae MBS that we own were consolidated resulting in a decrease in our investments in securities.
Mortgage loans Accrued interest receivable	We now record the underlying assets of the majority of our MBS trusts in our condensed consolidated balance sheets which significantly increases mortgage loans and related accrued interest receivable.
Allowance for loan losses Reserve for guaranty losses	The substantial majority of our combined loss reserves are now recognized in our allowance for loan losses to reflect the loss allowance against the consolidated mortgage loans. We use a different methodology to estimate incurred losses for our allowance for loan losses as compared with our reserve for guaranty losses.
Guaranty assets Guaranty obligations	We eliminated our guaranty accounting for the newly consolidated trusts, which resulted in derecognizing previously recorded guaranty-related assets and liabilities associated with the newly consolidated trusts from our condensed consolidated balance sheets. We continue to have guaranty assets and obligations on unconsolidated trusts and other credit enhancements arrangements, such as our long-term standby commitments.
Debt Accrued interest payable	We recognize the MBS certificates issued by the consolidated trusts and that are held by third-party certificateholders as debt, which significantly increases our debt outstanding and related accrued interest payable.

We recognized a decrease of $3.3 billion in our stockholders deficit to reflect the cumulative effect of adopting the new accounting standards. See Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities for a further discussion of the impacts of the new accounting standards on our condensed consolidated financial statements.

Table 23 presents a summary of our condensed consolidated balance sheets as of June 30, 2010 and December 31, 2009, as well as the impact of the transition to the new accounting standards on January 1, 2010. Following the table is a discussion of material changes in the major components of our assets, liabilities and deficit from January 1, 2010 through June 30, 2010.

Table of Contents

Table 23: Summary of Condensed Consolidated Balance Sheets

	As of			Variance	
	June 30, 2010	January 1, 2010	December 31, 2009	January 1 to June 30, 2010	December 31, 2009 to January 1, 2010
	(Dollars in millions)				
Assets					
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$ 65,452	$ 60,161	$ 60,496	$ 5,291	$ (335)
Restricted cash	38,855	48,653	3,070	(9,798)	45,583
Investments in securities[1]	183,013	161,088	349,667	21,925	(188,579)
Mortgage loans	2,981,041	2,985,445	404,486	(4,404)	2,580,959
Allowance for loan losses	(60,582)	(53,501)	(9,925)	(7,081)	(43,576)
Mortgage loans, net of allowance for loan losses	2,920,459	2,931,944	394,561	(11,485)	2,537,383
Other assets[2]	48,488	44,389	61,347	4,099	(16,958)
Total assets	$ 3,256,267	$ 3,246,235	$ 869,141	$ 10,032	$ 2,377,094
Liabilities and equity (deficit)					
Debt[3]	$ 3,225,406	$ 3,223,054	$ 774,554	$ 2,352	$ 2,448,500
Other liabilities[4]	32,272	35,164	109,868	(2,892)	(74,704)
Total liabilities	3,257,678	3,258,218	884,422	(540)	2,373,796
Senior preferred stock	84,600	60,900	60,900	23,700	
Other equity (deficit)[5]	(86,011)	(72,883)	(76,181)	(13,128)	3,298
Total stockholders equity (deficit)	(1,411)	(11,983)	(15,281)	10,572	3,298
Total liabilities and stockholders deficit	$ 3,256,267	$ 3,246,235	$ 869,141	$ 10,032	$ 2,377,094

(1) Includes $52.8 billion as of June 30, 2010 and $8.9 billion as of January 1, 2010 and December 31, 2009 of non-mortgage-related securities that are included in our other investments portfolio in Table 24: Cash and Other Investments Portfolio.

(2) Consists of: advances to lenders; accrued interest receivable, net; acquired property, net; derivative assets, at fair value; guaranty assets; deferred tax assets, net; partnership investments; servicer and MBS trust receivable and

other assets.

(3) Consists of: federal funds purchased and securities sold under agreements to repurchase; short-term debt; and long-term debt.

(4) Consists of: accrued interest payable; derivative liabilities; reserve for guaranty losses; guaranty obligations; partnership liabilities; servicer and MBS trust payable; and other liabilities.

(5) Consists of: preferred stock; common stock; additional paid-in capital; retained earnings (accumulated deficit); accumulated other comprehensive loss; treasury stock; and noncontrolling interest.

Cash and Other Investments Portfolio

Table 24 provides information on the composition of our cash and other investments portfolio for the periods indicated.

Table 24: Cash and Other Investments Portfolio

	As of	
	June 30, 2010	January 1, 2010
	(Dollars in millions)	
Cash and cash equivalents[1]	$ 27,844	$ 6,793
Federal funds sold and securities purchased under agreements to resell or similar arrangements	37,608	53,368
Non-mortgage-related securities:		
U.S. Treasury securities	45,712	3
Asset-backed securities	7,103	8,515
Corporate debt securities		364
Total non-mortgage-related securities	52,815	8,882
Total cash and other investments	$ 118,267	$ 69,043

(1) Includes $14.4 billion of U.S. Treasury securities and $2.0 billion of certificates of deposit as of June 30, 2010, with a maturity at the date of acquisition of three months or less.

Our total cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements and non-mortgage investment securities. Our cash and other investments portfolio increased as of June 30, 2010 compared with January 1, 2010 primarily because of our efforts to improve our liquidity position, including investing in higher quality and more liquid investments. In addition, under direction from FHFA, in the first quarter of 2010 we began diversifying our cash and other investments portfolio to include U.S. Treasury securities. Our policy mandates that U.S. Treasury securities comprise an amount greater than or equal to 50% of the average of the previous three month-end balances of our cash and other investments portfolio (as adjusted in agreement with FHFA). For additional information on our liquidity management policies, see Liquidity and Capital Management Liquidity Management Liquidity Risk Management Practices.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are reported at fair value. See Note 6, Investments in Securities for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of June 30, 2010.

Investments in Agency Mortgage-Related Securities

Our investments in agency mortgage-related securities consist of securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. Investments in agency mortgage securities declined to $60.3 billion as of June 30, 2010 compared with $83.7 billion as of January 1, 2010. The decline was due to settlement of sales commitments related to dollar roll transactions.

Table of Contents

Investments in Private-Label Mortgage-Related Securities

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

The continued negative impact of the current economic environment, such as sustained weakness in the housing market and high unemployment, has adversely affected the performance of our Alt-A and subprime securities. The unpaid principal balance of our investments in Alt-A and subprime securities was $43.0 billion as of June 30, 2010, of which $31.9 billion was rated below investment grade. Table 25 presents the fair value of our investments in Alt-A and subprime private-label securities and an analysis of the cumulative losses on these investments as of June 30, 2010.

Table 25: Analysis of Losses on Alt-A and Subprime Private-Label Mortgage-Related Securities

	As of June 30, 2010				
	Unpaid Principal Balance	Fair Value	Total Cumulative Losses[3]	Noncredit Component[4]	Credit Component[5]
	(Dollars in millions)				
Trading securities:[1]					
Alt-A private-label securities	$ 3,249	$ 1,409	$ (1,789)	$ (631)	$ (1,158)
Subprime private-label securities	2,873	1,645	(1,227)	(350)	(877)
Total	$ 6,122	$ 3,054	$ (3,016)	$ (981)	$ (2,035)
Available-for-sale securities:[2]					
Alt-A private-label securities	$ 20,465	$ 14,481	$ (6,054)	$ (2,613)	$ (3,441)
Subprime private-label securities	16,437	10,255	(6,226)	(1,884)	(4,342)
Total	$ 36,902	$ 24,736	$ (12,280)	$ (4,497)	$ (7,783)

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

(2) Includes a wrap transaction that has been partially consolidated on our balance sheet, which effectively resulted in a portion of the underlying structure of the transaction being accounted for and reported as available-for-sale securities. Although the wrap transaction is supported by financial guarantees that cover all of our credit risk, we have not included the benefit of these financial guarantees in determining the credit component balance in this table.

(3) Amounts reflect the difference between the amortized cost basis (unpaid principal balance net of unamortized premiums, discounts and other cost basis adjustments), excluding other-than-temporary impairment losses, net of accretion for available-for-sale securities, recorded in earnings, and the fair value.

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

(5) For securities classified as trading, amounts reflect the estimated portion of the total cumulative losses that is credit-related. For securities classified as available-for-sale, amounts reflect the portion of other-than-temporary impairment losses net of accretion that are recognized in earnings in accordance with the accounting standards for other-than-temporary impairments.

Table 26 presents the 60 days or more delinquency rates and average loss severities for the loans underlying our Alt-A and subprime private-label mortgage-related securities for the most recent remittance period of the current reporting quarter. The delinquency rates and average loss severities are based on available data provided by Intex Solutions, Inc. (Intex) and First American CoreLogic, LoanPerformance (First American CoreLogic). We also present the average credit enhancement and monoline financial guaranteed amount for these securities as of June 30, 2010. Based on the stressed condition of some of our financial guarantors, we believe some of these

Table of Contents

counterparties will not fully meet their obligation to us in the future. See Risk Management Institutional Counterparty Credit Risk Management Financial Guarantors for additional information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

Table 26: Credit Statistics of Loans Underlying Alt-A and Subprime Private-Label Mortgage-Related Securities (Including Wraps)

	As of June 30, 2010						
	Unpaid Principal Balance						Monoline
	Trading	Available-for-Sale	Wraps[1]	³ 60 Days Delinquent[2][3]	Average Loss Severity[3][4]	Average Credit Enhancement[3][5]	Financial Guaranteed Amount[6]
	(Dollars in millions)						
Private-label mortgage-related securities backed by:[7]							
Alt-A mortgage loans:							
Option ARM Alt-A mortgage loans:							
2004 and prior	$	$ 548	$	32.2%	46.9%	20.4%	$
2005		1,462		43.2	52.2	45.3	284
2006		1,523		47.1	59.6	39.2	240
2007	2,259			46.1	59.9	61.1	822
Other Alt-A mortgage loans:							
2004 and prior		7,414		9.3	50.8	12.2	16
2005	99	4,690	150	24.4	51.5	8.7	
2006	71	4,692		31.9	55.9	4.2	
2007	820		220	48.3	67.3	33.3	341
2008[8]		136					
Total Alt-A mortgage loans:	3,249	20,465	370				1,703
Subprime mortgage loans:							
2004 and prior[9]		2,315	728	24.2	70.3	59.5	716
2005[8]		230	1,664	44.4	71.0	58.1	230
2006		13,206		51.3	71.1	21.7	52
2007	2,873	686	6,091	49.7	68.5	24.9	187
Total subprime mortgage loans:	2,873	16,437	8,483				1,185
Total Alt-A and subprime mortgage loans:	$ 6,122	$ 36,902	$ 8,853				$ 2,888

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

(2) Delinquency data provided by Intex, where available, for loans backing Alt-A and subprime private-label mortgage-related securities that we own or guarantee. The reported Intex delinquency data reflects information from June 2010 remittances for May 2010 payments. For consistency purposes, we have adjusted the Intex delinquency data, where appropriate, to include all bankruptcies, foreclosures and REO in the delinquency rates.

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

(4) Severity data obtained from First American CoreLogic, where available, for loans backing Alt-A and subprime private-label mortgage-related securities that we own or guarantee. The First American CoreLogic severity data reflects information from June 2010 remittances for May 2010 payments. For consistency purposes, we have adjusted the severity data, where appropriate.

(5) Average credit enhancement percentage reflects both subordination and financial guarantees. Reflects the ratio of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own or guarantee. Percentage generally calculated based on the quotient of the total unpaid principal balance of all credit enhancements in the form of subordination or financial guarantee of the security divided by the

total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own or guarantee.

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

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

(8) The unpaid principal balance includes private-label REMIC securities that have been resecuritized totaling $136 million for the 2008 vintage of other Alt-A loans and $32 million for the 2005 vintage of subprime loans. These securities are excluded from the delinquency, severity and credit enhancement statistics reported in this table.

(9) Includes a wrap transaction that has been partially consolidated on our balance sheet, which effectively resulted in a portion of the underlying structure of the transaction being accounted for and reported as available-for-sale securities. Although the wrap transaction is supported by financial guarantees that cover all of our credit risk, we have not included the amount of these financial guarantees in the consolidated securities in this table.

Mortgage Loans

The mortgage loans reported in our condensed consolidated balance sheets include loans owned by Fannie Mae and loans held in consolidated trusts and are classified as either held for sale or held for investment. Mortgage loans decreased from January 1, 2010 to June 30, 2010 as scheduled principal paydowns and prepayments were greater than the principal balance of the loans securitized through our lender swap and portfolio securitization programs. For additional information on our mortgage loans, see Note 4, Mortgage Loans. For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see Business Segment Results Capital Markets Group Results.

Debt Instruments

The debt reported in our condensed consolidated balance sheets consists of two categories of debt, which we refer to as debt of Fannie Mae and debt of consolidated trusts. Debt of Fannie Mae, which consists of short-term debt, long-term debt and federal funds purchased and securities sold under agreements to repurchase, is the primary means of funding our mortgage investments and managing interest rate risk exposure. Debt of consolidated trusts represents our liability to third-party beneficial interest holders when we have included the assets of a corresponding trust in our condensed consolidated balance sheets. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt as of June 30, 2010 and December 31, 2009 in Liquidity and Capital Management Liquidity Management Debt Funding. Also see Note 9, Short-Term Borrowings and Long-Term Debt for additional information on our outstanding debt.

The decrease in debt of consolidated trusts from January 1, 2010 to June 30, 2010 was primarily driven by the purchase of delinquent loans from MBS trusts as purchasing these loans from MBS trusts for our portfolio results in the extinguishment of consolidated trust debt.

Derivative Instruments

We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. We aggregate, by derivative counterparty, the net fair value gain or loss, less any cash collateral paid or received, and report these amounts in our condensed consolidated balance sheets as either assets or liabilities.

Our derivative assets and liabilities consist of these risk management derivatives and our mortgage commitments. We refer to the difference between the derivative assets and derivative liabilities recorded in our condensed consolidated balance sheets as our net derivative asset or liability. We present, by derivative instrument type, the estimated fair value of derivatives recorded in our condensed consolidated balance sheets and the related outstanding notional amounts as of June 30, 2010 and December 31, 2009 in Note 10, Derivative Instruments. Table 27 provides an analysis of the factors driving the change from December 31, 2009 to June 30, 2010 in the estimated fair value of our net derivative liability related to our risk management derivatives recorded in our condensed consolidated balance sheets.

Table of Contents

Table 27: Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net

	For the Six Months Ended June 30, 2010 (Dollars in millions)
Net risk management derivative liability as of December 31, 2009	$ (340)
Effect of cash payments:	
Fair value at inception of contracts entered into during the period[1]	(529)
Fair value at date of termination of contracts settled during the period[2]	797
Net collateral posted	484
Periodic net cash contractual interest payments[3]	1,246
Total cash payments	1,998
Statement of operations impact of recognized amounts:	
Net contractual interest expense accruals on interest rate swaps	(1,591)
Net change in fair value during the period	(390)
Risk management derivatives fair value losses, net	(1,981)
Net risk management derivative liability as of June 30, 2010	$ (323)

(1) Cash receipts from sale of derivative option contracts increase the derivative liability recorded in our condensed consolidated balance sheets. Cash payments made to purchase derivative option contracts (purchased option premiums) increase the derivative asset recorded in our condensed consolidated balance sheets.

(2) Cash payments made to terminate derivative contracts reduce the derivative liability recorded in our condensed consolidated balance sheets. Primarily represents cash paid (received) upon termination of derivative contracts.

(3) Interest is accrued on interest rate swap contracts based on the contractual terms. Accrued interest income increases our derivative asset and accrued interest expense increases our derivative liability. The offsetting interest income and expense are included as components of derivatives fair value gains (losses), net in our condensed consolidated statements of operations. Net periodic interest receipts reduce the derivative asset and net periodic interest payments reduce the derivative liability.

For additional information on our derivative instruments see Note 10, Derivative Instruments.

Stockholders Deficit

Our net deficit decreased as of June 30, 2010 compared with December 31, 2009. See Table 28 in Supplemental Non-GAAP Information Fair Value Balance Sheets for details of the change in our net deficit.

SUPPLEMENTAL NON-GAAP INFORMATION FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value. Table 29: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets, which we provide at the end of this section, presents our non-GAAP consolidated fair value balance sheets as of June 30, 2010 and December 31, 2009, and the non-GAAP estimated fair value of our net assets.

As discussed more fully in Critical Accounting Policies and Estimates Fair Value Measurement, we use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in Note 16, Fair Value.

Table of Contents

The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies. It is not intended as a substitute for Fannie Mae s stockholders deficit or for the total deficit reported in our GAAP condensed consolidated balance sheets, which represents the net worth measure that is used to determine whether it is necessary to request additional funds from Treasury under the senior preferred stock purchase agreement.

The estimated fair value of our net assets, which is derived from our non-GAAP consolidated fair value balance sheets, is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. The fair value of our net assets attributable to common stockholders presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company; what we expect to draw from Treasury under the terms of our senior preferred stock purchase agreement; nor does it reflect a liquidation or market value of the company as a whole.

We believe that the amount we may draw from Treasury under our senior preferred stock purchase agreement differs from the fair value of our common equity reported in our supplemental non-GAAP consolidated fair value balance sheet as of June 30, 2010 primarily because:

(1) the estimated fair value of our credit exposures significantly exceeds our projected credit losses as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation. Because we do not intend to have another party assume the credit risk inherent in our book, and therefore would not be obligated to pay a market premium for its assumption, we do not expect the current market premium portion of our current estimate of fair value to impact future Treasury draws;

(2) the fair value balance sheet does not reflect amounts we expect to draw in the future to pay dividends on the senior preferred stock; and

(3) the fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

Table 28 summarizes changes in our stockholders deficit reported in our GAAP condensed consolidated balance sheets and in the fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the six months ended June 30, 2010.

Table 28: Comparative Measures GAAP Change in Stockholders Deficit and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For the Six Months Ended June 30, 2010 (Dollars in millions)	
GAAP consolidated balance sheets:		
Fannie Mae stockholders deficit as of December 31, 2009	$	(15,372)
Impact of new accounting standards on Fannie Mae stockholders deficit as of January 1, 2010[1]		3,312
Fannie Mae stockholders deficit as of January 1, 2010[2]		(12,060)
Net loss attributable to Fannie Mae		(12,748)
Changes in net unrealized losses on available-for-sale securities, net of tax		2,802
Reclassification adjustment for other-than-temporary impairments recognized in net loss, net of tax		247
Capital transactions:[3]		
Funds received from Treasury under the senior preferred stock purchase agreement		23,700
Senior preferred stock dividends		(3,436)
Capital transactions, net		20,264
Other equity transactions		13
Fannie Mae stockholders deficit as of June 30, 2010[2]	$	(1,482)
Non-GAAP consolidated fair value balance sheets:		
Estimated fair value of net assets as of December 31, 2009	$	(98,792)
Impact of new accounting standards on Fannie Mae estimated fair value of net assets as of January 1, 2010[1]		(52,302)
Estimated fair value of net assets as of January 1, 2010		(151,094)
Capital transactions, net		20,264
Change in estimated fair value of net assets[4]		(7,136)
Increase in estimated fair value of net assets, net		13,128
Estimated fair value of net assets as of June 30, 2010	$	(137,966)

(1) Reflects our adoption of the new accounting standards for transfers of financial assets and consolidation of variable interest entities.

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

consolidated balance sheets.

(3) Represents capital transactions, which are reflected in our condensed consolidated statements of changes in equity (deficit).

(4) Excludes cumulative effect of our adoption of the new accounting standards and capital transactions.

The fair value of our net assets, including the impact of adopting the new accounting standards and capital transactions, decreased by $39.2 billion from December 31, 2009, which resulted in a fair value net deficit of $138.0 billion as of June 30, 2010. Included in this decrease was $52.3 billion primarily associated with recording delinquent loans underlying consolidated MBS trusts and eliminating our net guaranty obligations related to MBS trusts that were consolidated on January 1, 2010 as a result of adopting the new accounting standards. The fair value of our guaranty obligations is a measure of the credit risk related to mortgage loans underlying Fannie Mae MBS that we assume through our guaranty. With consolidation of MBS trusts and the elimination of our guaranty obligation, we ceased valuing our credit risk associated with delinquent loans in consolidated MBS trusts using our guaranty obligation models and began valuing those delinquent loans based on nonperforming loan prices.

Table of Contents

Since market participant assumptions inherent in the pricing for nonperforming loans differ from assumptions we use in estimating the fair value of our guaranty obligations, most significantly expected returns and liquidity discounts, consolidation of MBS trusts directly impacted the fair value of our net assets. Market prices for nonperforming loans are reflective of highly negotiated transactions in a principal-to-principal market that often involve loan-level due diligence prior to completion of a transaction. Many of these transactions involve sellers who acquired the loans in distressed transactions and buyers who demand significant return opportunities. As a result, we believe that valuations in the nonperforming loan market understate the value of the nonperforming loans we expect to realize.

We intend to maximize the value of distressed loans over time, utilizing loan modification, foreclosure, repurchases and other preferable loss mitigation actions (for example, preforeclosure sales) that to date have resulted in per loan net recoveries materially higher than those that would have been available had they been sold in the distressed loan market. By comparing the expected losses of our nonperforming loans based on our proprietary models versus the losses that would be incurred by selling our nonperforming loans at the current estimated market price, we could realize approximately $50 billion more than the fair value of our nonperforming loans reported in our non-GAAP consolidated fair value balance sheet as of June 30, 2010.

Credit risk is managed by our guaranty business and is computed for intracompany allocation purposes. By computing this intracompany allocation, we reflect the value associated with credit risk, which is managed by our guaranty business versus the interest rate risk, which is measured by our Capital Markets group. As a result of our adoption of the new accounting standards, we shifted from presenting the fair value of mortgage loans separately from the fair value of net guaranty obligations of MBS trusts as of December 31, 2009 to presenting consolidated mortgage loans, net of the fair value of guaranty assets and obligations as of June 30, 2010. We have not changed our fair value methodologies or our methodology of computing our credit risk for intracompany allocation purposes.

Below we provide additional information that we believe may be useful in understanding our fair value balance sheets, including the primary factors driving the decline in the fair value of net assets, excluding capital transactions, during the first half of 2010 and the limitations of our non-GAAP consolidated fair value balance sheets and related measures.

Primary Factors Driving Changes in the Non-GAAP Fair Value of Net Assets Excluding the January 1, 2010 Impact of Adopting the New Accounting Standards and Capital Transactions

The following reflects attribution of the primary factors driving the $7.1 billion decrease in the fair value of our net assets, excluding the cumulative effect of our January 1, 2010 adoption of the new accounting standards and capital transactions, during the first half of 2010.

- A decrease in fair value due to credit-related items principally related to a general increase in estimated severity rates based on recent experience, particularly for loans with a high mark-to-market LTV ratio, as well as increased default estimates for loans with higher risk profiles.

- An increase in the fair value of the net portfolio attributable to the positive impact of changes in the spread between mortgage assets and associated debt and derivatives.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

In reviewing our non-GAAP consolidated fair value balance sheets, there are a number of important factors and limitations to consider. The estimated fair value of our net assets is calculated as of a particular point in time based on our existing assets and liabilities. It does not incorporate other factors that may have a

significant impact on our long-term fair value, including revenues generated from future business activities in which we expect to engage, the value from our foreclosure and loss mitigation efforts or the impact that potential regulatory actions may have on us. As a result, the estimated fair value of our net assets presented in our non-GAAP consolidated fair value balance sheets does not represent an estimate of our net realizable value, liquidation value or our market value as a whole; nor does it represent an estimate of the value we expect to receive from operating the company or what we expect to draw from Treasury under the terms of our senior preferred stock purchase agreement. Amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary materially from the estimated fair values presented in our non-GAAP consolidated fair value balance sheets.

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We present our non-GAAP fair value balance sheets in Table 29.

Table 29: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of June 30, 2010			As of December 31, 2009(1)		
	GAAP Carrying Value	Fair Value Adjustment(2)	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment(2)	Estimated Fair Value
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$ 66,699	$	$ 66,699(3)	$ 9,882	$	$ 9,882(3)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	37,608		37,608(3)	53,684	(28)	53,656(3)
Trading securities	77,353		77,353(3)	111,939		111,939(3)
Available-for-sale securities	105,660		105,660(3)	237,728		237,728(3)
Mortgage loans:						
Mortgage loans held for sale	1,025	23	1,048(3)	18,462	153	18,615(3)
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	363,154	(43,326)	319,828(3)	246,509	(5,209)	241,300(3)
Of consolidated trusts	2,556,280	74,609(4)	2,630,889(3)	129,590	(45)	129,545(3)
Total mortgage loans	2,920,459	31,306	2,951,765	394,561	(5,101)	389,460
Advances to lenders	4,849	(265)	4,584(3)	5,449	(305)	5,144(3)
Derivative assets at fair value	1,224		1,224(3)	1,474		1,474(3)
Guaranty assets and buy-ups, net	428	382	810(3)(5)	9,520	5,104	14,624(3)(5)
Total financial assets	3,214,280	31,423	3,245,703(3)	824,237	(330)	823,907(3)
Master servicing assets and credit enhancements	505	3,881	4,386(5)(6)	651	5,917	6,568(5)(6)
Other assets	41,482	(254)	41,228(6)	44,253	373	44,626(6)
Total assets	$ 3,256,267	$ 35,050	$ 3,291,317	$ 869,141	$ 5,960	$ 875,101
Liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$ 142	$	$ 142(3)	$	$	$ (3)
Short-term debt:						
Of Fannie Mae	256,066	145	256,211(3)	200,437	56	200,493(3)
Of consolidated trusts	5,987		5,987(3)			(3)

Long-term debt:						
Of Fannie Mae	586,437(7)	27,664	614,101(3)	567,950(7)	19,473	587,423(3)
Of consolidated trusts	2,376,774(7)	140,869(4)	2,517,643(3)	6,167(7)	143	6,310(3)
Derivative liabilities at fair value	1,693		1,693(3)	1,029		1,029(3)
Guaranty obligations	765	3,239	4,004(3)	13,996	124,586	138,582(3)
Total financial liabilities	3,227,864	171,917	3,399,781(3)	789,579	144,258	933,837(3)
Other liabilities	29,814	(383)	29,431(8)	94,843	(54,878)	39,965(8)
Total liabilities	3,257,678	171,534	3,429,212	884,422	89,380	973,802
Equity (deficit):						
Fannie Mae stockholders equity (deficit):						
Senior preferred[9]	84,600		84,600	60,900		60,900
Preferred	20,280	(19,982)	298	20,348	(19,629)	719
Common	(106,362)	(116,502)	(222,864)	(96,620)	(63,791)	(160,411)
Total Fannie Mae stockholders deficit/non-GAAP fair value of net assets	**$ (1,482)**	**$ (136,484)**	**$ (137,966)**	**$ (15,372)**	**$ (83,420)**	**$ (98,792)**
Noncontrolling interests	71		71	91		91
Total deficit	(1,411)	(136,484)	(137,895)	(15,281)	(83,420)	(98,701)
Total liabilities and equity (deficit)	$ 3,256,267	$ 35,050	$ 3,291,317	$ 869,141	$ 5,960	$ 875,101

66

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

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

(3) We determined the estimated fair value of these financial instruments in accordance with the fair value accounting standard as described in Note 16, Fair Value.

(4) Fair value exceeds the carrying value of consolidated loans and debt of consolidated trusts due to the fact that the loans and debt were consolidated in our GAAP condensed consolidated balance sheet at unpaid principal balance at transition. Also impacting the difference between fair value and carrying value of the consolidated loans is the credit component of the loan. This credit component is reflected in the net guaranty obligation, which is included in the consolidated loan fair value, but was presented as a separate line item in our fair value balance sheet in prior periods.

(5) In our GAAP condensed consolidated balance sheets, we report the guaranty assets as a separate line item. Other guaranty related assets are within the Other assets line items and they include buy-ups, master servicing assets and credit enhancements. On a GAAP basis, our guaranty assets totaled $427 million and $8.4 billion as of June 30, 2010 and December 31, 2009, respectively. The associated buy-ups totaled $0.6 million and $1.2 billion as of June 30, 2010 and December 31, 2009, respectively.

(6) The line items Master servicing assets and credit enhancements and Other assets together consist of the assets presented on the following six line items in our GAAP condensed consolidated balance sheets: (a) Total accrued interest receivable, net of allowance; (b) Acquired property, net; (c) Deferred tax assets, net; (d) Partnership investments; (e) Servicer and MBS trust receivable and (f) Other assets. The carrying value of these items in our GAAP condensed consolidated balance sheets together totaled $42.0 billion and $46.1 billion as of June 30, 2010 and December 31, 2009, respectively. We deduct the carrying value of the buy-ups associated with our guaranty obligation, which totaled $0.6 million and $1.2 billion as of June 30, 2010 and December 31, 2009, respectively, from Other assets reported in our GAAP condensed consolidated balance sheets because buy-ups are a financial instrument that we combine with guaranty assets in our disclosure in Note 16, Fair Value. We have estimated the fair value of master servicing assets and credit enhancements based on our fair value methodologies described in Note 16.

(7) Includes certain long-term debt instruments that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $3.6 billion and $3.3 billion as of June 30, 2010 and December 31, 2009, respectively.

(8) The line item Other liabilities consists of the liabilities presented on the following six line items in our GAAP condensed consolidated balance sheets: (a) Accrued interest payable of Fannie Mae; (b) Accrued interest payable of consolidated trusts; (c) Reserve for guaranty losses; (d) Partnership liabilities; (e) Servicer and MBS trust payable; and (f) Other liabilities. The carrying value of these items in our GAAP condensed consolidated balance sheets together totaled $29.8 billion and $94.8 billion as of June 30, 2010 and December 31, 2009, respectively. The GAAP carrying values of these other liabilities generally approximate fair value. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the Reserve for guaranty losses as a separate line item in our condensed consolidated balance sheets, it is incorporated into and reported as part of

the fair value of our guaranty obligations in our non-GAAP supplemental consolidated fair value balance sheets.

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

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. We have implemented a liquidity policy which is designed to mitigate our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet these needs while accommodating fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. Our Treasury group is responsible for our liquidity and contingency planning strategies. For additional information on our liquidity management, including liquidity governance and contingency planning, see MD&A Liquidity and Capital Management in our 2009 Form 10-K.

Debt Funding

Effective January 1, 2010, we adopted new accounting standards that resulted in the consolidation of the substantial majority of our MBS trusts and recognized the underlying assets and debt of these trusts in our condensed consolidated balance sheet. Debt from consolidations represents our liability to third-party beneficial interest holders of MBS that we guarantee when we have included the assets of a corresponding trust in our condensed consolidated balance sheets. Despite the increase in debt recognized in our condensed consolidated balance sheets due to consolidations, the adoption of the new accounting standards did not change our exposure to liquidity risk. We separately present the debt from consolidations (debt of consolidated trusts) and the debt issued by us (debt of Fannie Mae) in our condensed consolidated balance sheets and in the debt tables below. Our discussion regarding debt funding in this section focuses on the debt of Fannie Mae.

In the first quarter of 2010, we began to significantly increase our purchases of delinquent loans from single-family MBS trusts. Under our single-family MBS trust documents, we have the option to purchase from MBS trusts loans that are delinquent as to four or more consecutive monthly payments. Through June 30, 2010, we had purchased the substantial majority of this delinquent loan population which impacted our funding needs in the first half of 2010. We purchased approximately 858,000 delinquent loans with an unpaid principal balance of approximately $170 billion from single-family MBS trusts in the first half of 2010 including the purchase of approximately 570,000 delinquent loans with an unpaid principal balance of approximately $114 billion in the second quarter of 2010.

We expect to continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, servicer capacity, and other constraints including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. As of June 30, 2010, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was approximately $9 billion. In July 2010, we purchased approximately 50,000 delinquent loans with an unpaid principal balance of approximately $9 billion from our MBS trusts.

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

We have a diversified funding base of domestic and international investors. Purchasers of our debt securities include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments, and other municipal authorities. Purchasers of our debt securities are also geographically diversified, with a significant portion of our investors historically located in the United States, Europe and Asia.

Fannie Mae Debt Funding Activity

Table 30 summarizes the activity in the debt of Fannie Mae for the periods indicated. This activity includes federal funds purchased and securities sold under agreements to repurchase but excludes the debt of consolidated trusts as well as intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 30: Activity in Debt of Fannie Mae

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Issued during the period:				
Short-term:(1)				
Amount	$ 148,451	$ 388,028	$ 286,931	$ 689,848
Weighted-average interest rate	0.31%	0.37%	0.29%	0.33%
Long-term:				
Amount	$ 100,890	$ 83,982	$ 202,854	$ 192,483
Weighted-average interest rate	2.39%	2.40%	2.34%	2.35%
Total issued:				
Amount	$ 249,341	$ 472,010	$ 489,785	$ 882,331
Weighted-average interest rate	1.14%	0.72%	1.12%	0.76%
Paid off during the period:(2)				
Short-term:(1)				
Amount	$ 100,141	$ 403,310	$ 231,007	$ 762,200
Weighted-average interest rate	0.21%	0.47%	0.22%	0.71%
Long-term:				
Amount	$ 88,439	$ 91,866	$ 183,602	$ 157,104
Weighted-average interest rate	3.33%	4.76%	3.32%	4.54%
Total paid off:				
Amount	$ 188,580	$ 495,176	$ 414,609	$ 919,304
Weighted-average interest rate	1.68%	1.26%	1.59%	1.37%

(1) The amount of short-term debt issued and paid off included $217.5 billion for the second quarter of 2009 and $378.0 billion for the first six months of 2009 of debt issued and repaid to Fannie Mae MBS trusts. Due to the adoption of the new accounting standards on the transition date, we no longer include debt issued and repaid to Fannie Mae MBS trusts in the activity in debt of Fannie Mae as the substantial majority of these trusts are consolidated.

(2) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases.

Due to the adoption of the new accounting standards, we no longer include debt issued and repaid to Fannie Mae MBS trusts in our short-term debt activity, as the substantial majority of our MBS trusts were consolidated and the underlying assets and debt of these trusts were recognized in our condensed consolidated balance sheets. For the second quarter of 2009, short-term debt activity of Fannie Mae, excluding debt issued and repaid to Fannie Mae MBS trusts, consisted of issuances of $170.6 billion with a weighted-average interest rate of 0.68% and repayments of $185.8 billion with a weighted-average interest rate of 0.88%. For the first half of 2009, short-term debt activity of Fannie Mae, excluding debt issued and repaid to Fannie Mae MBS trusts, consisted of issuances of $311.9 billion with a weighted-average interest rate of 0.58% and repayments of $384.2 billion with a weighted-average interest rate of 1.30%.

Our ability to issue long-term debt has been strong in recent quarters primarily due to actions taken by the federal government to support us and the financial markets. Many of these programs initiated by the federal government have expired. The Treasury credit facility and Treasury MBS purchase program terminated on December 31, 2009 and the Federal Reserve s agency debt and MBS purchase programs expired on March 31, 2010. Despite the expiration of these programs, demand for our long-term debt securities continues to be strong as of the date of this filing.

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 and results of operations. In addition, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations. See Risk Factors in our 2009 Form 10-K for a discussion of the risks to our business related to our ability to obtain funds for our operations through the issuance of debt securities, the relative cost at which we are able to obtain these funds and our liquidity contingency plans.

Outstanding Debt

Table 31 provides information as of June 30, 2010 and December 31, 2009 on our outstanding short-term and long-term debt based on its original contractual terms. Our total outstanding debt of Fannie Mae, which consists of federal funds purchased and securities sold under agreements to repurchase and short-term and long-term debt, excluding debt of consolidated trusts, increased to $842.6 billion as of June 30, 2010, from $768.4 billion as of December 31, 2009.

As of June 30, 2010, our outstanding short-term debt, based on its original contractual maturity, increased as a percentage of our total outstanding debt to 30% from 26% as of December 31, 2009. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see Maturity Profile of Outstanding Debt of Fannie Mae. In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, decreased to 3.40% as of June 30, 2010 from 3.71% as of December 31, 2009.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own. Through December 30, 2010, our debt cap under the senior preferred stock purchase agreement is $1,080 billion. Beginning on December 31, 2010, and through December 30, 2011, and each year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. As of June 30, 2010, our aggregate indebtedness totaled $860.8 billion, which was $219.2 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt cap reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table of Contents

Table 31: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of					
	June 30, 2010			December 31, 2009		
	Maturities	Outstanding	Weighted-Average Interest Rate	Maturities	Outstanding	Weighted-Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase		$ 142	0.01%		$	%
Short-term debt:						
Fixed-rate:						
Discount notes		$ 255,863	0.30%		$ 199,987	0.27%
Foreign exchange discount notes		203	1.73		300	1.50
Other short-term debt					100	0.53
Total fixed-rate		256,066	0.30		200,387	0.27
Floating-rate[2]					50	