FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 03, 2017

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, 2017
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	52-0883107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3900 Wisconsin Avenue, NW Washington, DC	20016 (Zip Code)

(Address of principal executive offices)
Registrant's telephone number, including area code: (800) 2FANNIE (800-232-6643)
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of June 30, 2017, there were 1,158,087,567 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

		Page
PART I—Financial Information		1
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets	63
	Condensed Consolidated Statements of Operations and Comprehensive Income	64
	Condensed Consolidated Statements of Cash Flows	65
	Note 1—Summary of Significant Accounting Policies	66
	Note 2—Consolidations and Transfers of Financial Assets	70
	Note 3—Mortgage Loans	71
	Note 4—Allowance for Loan Losses	78
	Note 5—Investments in Securities	80
	Note 6—Financial Guarantees	83
	Note 7—Short-Term Borrowings and Long-Term Debt	84
	Note 8—Derivative Instruments	85
	Note 9—Earnings Per Share	87
	Note 10—Segment Reporting	88
	Note 11—Equity	90
	Note 12—Concentrations of Credit Risk	91
	Note 13—Netting Arrangements	94
	Note 14—Fair Value	96
	Note 15—Commitments and Contingencies	113
	Note 16—Subsequent Events	114
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	1
	Introduction	1
	Executive Summary	2
	Legislation and Regulation	11
	Consolidated Results of Operations	13
	Consolidated Balance Sheet Analysis	22
	Retained Mortgage Portfolio	24
	Mortgage Credit Book of Business	25
	Business Segments	27
	Liquidity and Capital Management	45
	Off-Balance Sheet Arrangements	51
	Risk Management	52
	Critical Accounting Policies and Estimates	60
	Impact of Future Adoption of New Accounting Guidance	60
	Forward-Looking Statements	60
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	115
Item 4.	Controls and Procedures	115
PART II—Other Information		117
Item 1.	Legal Proceedings	117
Item 1A.	Risk Factors	119
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	120
Item 3.	Defaults Upon Senior Securities	121
Item 4.	Mine Safety Disclosures	121
Item 5.	Other Information	121
Item 6.	Exhibits	121

Fannie
Mae
Second
Quarter
2017
Form
10-Q

MD&A TABLE REFERENCE

Table	Description	Page
1	Summary of Condensed Consolidated Results of Operations	13
2	Analysis of Net Interest Income and Yield	14
3	Rate/Volume Analysis of Changes in Net Interest Income	16
4	Fair Value Losses, Net	17
5	Changes in Combined Loss Reserves	18
6	Troubled Debt Restructurings and Nonaccrual Loans	19
7	Credit Loss Performance Metrics	20
8	Credit Loss Concentration Analysis	21
9	Summary of Condensed Consolidated Balance Sheets	22
10	Summary of Mortgage-Related Securities at Fair Value	23
11	Retained Mortgage Portfolio	24
12	Retained Mortgage Portfolio Profile	25
13	Composition of Mortgage Credit Book of Business	26
14	Single-Family Business Key Performance Data	28
15	Single-Family Business Financial Results	29
16	Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2017	31
17	Single-Family Credit Risk Transfer Transactions	32
18	Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period	34
19	Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business	35
20	Delinquency Status and Activity of Single-Family Conventional Loans	38
21	Single-Family Conventional Seriously Delinquent Loan Concentration Analysis	39
22	Statistics on Single-Family Loan Workouts	40
23	Single-Family Foreclosed Properties	41
24	Multifamily Business Key Performance Data	43
25	Multifamily Business Financial Results	44
26	Multifamily Guaranty Book of Business Key Risk Characteristics	45
27	Activity in Debt of Fannie Mae	47
28	Outstanding Short-Term Borrowings and Long-Term Debt	49
29	Cash and Other Investments Portfolio	50
30	Mortgage Insurance Coverage	54
31	Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve	59
32	Derivative Impact on Interest Rate Risk (50 Basis Points)	59

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 fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. 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, 2016 ("2016 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 in this report and the more detailed information in our 2016 Form 10-K.

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report and in our 2016 Form 10-K.

You can find a "Glossary of Terms Used in This Report" in the MD&A of our 2016 Form 10-K.

Introduction

Fannie Mae is a government-sponsored enterprise ("GSE") chartered by Congress. We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.

We operate in the secondary mortgage market. We support the liquidity and stability of the U.S. mortgage market primarily by securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We do not originate loans or lend money directly to consumers in the primary mortgage market.

We remain in conservatorship and our conservatorship has no specified termination date. We do not know when or how the conservatorship will terminate, what further changes to our business will be made during or following conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated, or whether we will continue to exist following conservatorship. In addition, as a result of our agreements with Treasury and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero in 2018), rebuild our capital position or pay dividends or other distributions to stockholders other than Treasury. Our senior preferred stock purchase agreement with Treasury also includes covenants that significantly restrict our business activities. Congress continues to consider options for reform of the housing finance system, including the GSEs. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation or actions the Administration or FHFA may take with respect to housing finance reform. We provide additional information on the uncertainty of our future, the conservatorship, the provisions of our agreements with Treasury, their impact on our business, and recent actions and statements relating to housing finance reform by the Administration, Congress and FHFA in

“Business—Conservatorship and Treasury Agreements,” “Business—

Fannie
Mae
Second
Quarter
2017
Form
10-Q

Legislation and Regulation—Housing Finance Reform" and "Risk Factors" in our 2016 Form 10-K and in "Legislation and Regulation" and "Risk Factors" in our quarterly report on Form 10-Q for the quarter ended March 31, 2017 ("First Quarter 2017 Form 10-Q") and in this report.

Although Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and has made a commitment under a senior preferred stock purchase agreement to provide us with funds to maintain a positive net worth under specified conditions, the U.S. government does not guarantee our securities or other obligations.

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA." Our debt securities are actively traded in the over-the-counter market.

Executive Summary

Summary of Our Financial Performance

Quarterly Results

We recognized comprehensive income of $3.1 billion in the second quarter of 2017, consisting of net income of $3.2 billion, partially offset by other comprehensive loss of $83 million. In comparison, we recognized comprehensive income of $2.9 billion in the second quarter of 2016, consisting of net income of $2.9 billion, partially offset by other comprehensive loss of $77 million. The increase in our net income in the second quarter of 2017 compared with the second quarter of 2016 was primarily driven by lower fair value losses, partially offset by lower credit-related income and lower net interest income.

Year-to-Date Results

We recognized comprehensive income of $5.9 billion in the first half of 2017, consisting of net income of $6.0 billion, partially offset by other comprehensive loss of $77 million. In comparison, we recognized comprehensive income of $3.8 billion in the first half of 2016, consisting of net income of $4.1 billion, partially offset by other comprehensive loss of $277 million. The increase in our net income in the first half of 2017 compared with the first half of 2016 was primarily driven by lower fair value losses, partially offset by lower credit-related income.

The table below highlights our financial results and key performance data. The performance measures shown below are discussed in later sections of the MD&A. See "MD&A—Consolidated Results of Operations" for more information on our financial results.

Financial Results and Key Performance Data

	Second Quarter		First Half	
	2017	2016	2017	2016
Comprehensive income	$3.1 billion	$2.9 billion	$5.9 billion	$3.8 billion
Net income	3.2 billion	2.9 billion	6.0 billion	4.1 billion
Net interest income Net interest income in the second quarter and first half of 2017 was primarily derived from guaranty fees from our guaranty book of business and remained relatively flat compared with the second quarter and first half of 2016. We receive guaranty fee income as compensation for managing the credit risk on loans underlying Fannie Mae MBS held by third parties.	5.0 billion	5.3 billion	10.3 billion	10.1 billion
Net fair value losses Fair value losses in the second quarter and first half of 2017 were primarily driven by decreases in the fair value of our risk management derivatives due to declines in longer-term swap rates during the second quarter and by decreases in the fair value of our mortgage commitments due to an increase in prices as interest rates decreased during the commitment periods. We recognized additional fair value losses in the second quarter and first half of 2017 on Connecticut Avenue Securities™ ("CAS") debt reported at fair value resulting from tightening spreads between CAS debt yields and LIBOR during the periods. Fair value losses in the second quarter and first half of 2016 were primarily due to losses on our risk management derivatives resulting from declines in longer-term swap rates.	0.7 billion	1.7 billion	0.7 billion	4.5 billion
Credit-related income Credit-related income in the second quarter and first half of 2017 was primarily driven by an increase in actual and forecasted home prices and the redesignation of loans from held for investment ("HFI") to held for sale ("HFS"). Credit-related income in the second quarter and first half of 2016 was primarily attributable to an increase in home prices and a decline in actual and projected mortgage interest rates in the period.	1.2 billion	1.5 billion	1.4 billion	2.4 billion
Retained mortgage portfolio as of period end	255.8 billion	316.3 billion	255.8 billion	316.3 billion
Single-family guaranty book of business as of period end	2.9 trillion	2.8 trillion	2.9 trillion	2.8 trillion
Net worth as of period end	3.7 billion	4.1 billion	3.7 billion	4.1 billion
Capital reserve amount applicable to quarterly dividend payment to Treasury	600 million	1.2 billion	600 million	1.2 billion
Dividends paid to Treasury in the period	2.8 billion	919 million	8.3 billion	3.8 billion

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities whose estimated fair value may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads, and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and

other investments portfolio, and outstanding debt of Fannie Mae. Some of these

financial instruments in our net portfolio are not recorded at fair value in our condensed consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio. See "Risk Management—Market Risk Management, Including Interest Rate Risk Management" for more information. In addition, our credit-related income or expense can vary substantially from period to period based on a number of factors such as changes in actual and expected home prices, fluctuations in interest rates, borrower payment behavior, the types and volume of our loss mitigation activities, the volume of foreclosures completed, and redesignations of loans from HFI to HFS.

Our Strategy and Business Objectives

Our vision is to be America's most valued housing partner and to provide liquidity, access to credit and affordability in all U.S. housing markets at all times, while effectively managing and reducing risk to our business, taxpayers and the housing finance system. In support of this vision, we are focused on:

- advancing a sustainable and reliable business model that reduces risk to the housing finance system and taxpayers;
- providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners; and
- serving customer needs by building a company that is efficient, innovative and continuously improving.

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

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

Our business also continues to evolve as a result of our many other efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. See "Business—Legislation and Regulation—Housing Finance Reform—Conservator Developments and Strategic Goals" in our 2016 Form 10-K for a discussion of some of these efforts and FHFA's strategic goals for our conservatorship.

Stronger underwriting and eligibility standards

We strengthened our underwriting and eligibility standards for loans we acquired beginning in late 2008 and 2009. These changes improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance. As of June 30, 2017, 89% of our single-family conventional guaranty book of business consisted of loans acquired since 2009. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010 and was 1.01% as of June 30, 2017.

---

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

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

Transition to a guaranty-focused business

We have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. Our retained mortgage portfolio refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties).

As shown in the chart below, in recent periods, an increasing portion of our net interest income has been derived from guaranty fees, rather than from our retained mortgage portfolio assets. This shift has been driven by both the guaranty fee increases we implemented in 2012 and the reduction of our retained mortgage portfolio in accordance with the requirements of our senior preferred stock purchase agreement with Treasury and direction from FHFA. More than 75% of our net interest income for the first half of 2017 was derived from the loans underlying our Fannie Mae MBS in consolidated trusts, which primarily generate income through guaranty fees. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

---

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

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

In late 2013, we began entering into credit risk transfer transactions with the goal of transferring, to the extent economically sensible, a portion of the mortgage credit risk on some of the recently acquired loans in our single-family book of business in order to reduce the economic risk to us and to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through our CAS and Credit Insurance Risk Transfer™ ("CIRT™") transactions. In these transactions, we transfer to investors a portion of the mortgage credit risk associated with losses on a reference pool of mortgage loans and in exchange we pay investors a premium that effectively reduces the guaranty fee income we retain on the loans. As of June 30, 2017, $798 billion in outstanding unpaid principal balance of our single-family loans, or 28% of the loans in our single-family conventional guaranty book of business measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction. Over time, we expect that a larger portion of our single-family conventional guaranty book of business will be covered by credit risk transfer transactions.

The chart below shows as of the dates specified the total outstanding unpaid principal balance of our single-family loans, as well as the percentage of our total single-family conventional guaranty book of business measured by unpaid principal balance, that were included in a reference pool for a credit risk transfer transaction.

The risk in force of these transactions, which refers to the maximum amount of losses that could be absorbed by credit risk transfer investors, was approximately $25 billion as of June 30, 2017. For further discussion of our credit risk transfer transactions, including more detailed information on the portion of the credit risk of these loans we have transferred, see “Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk: Single-Family Credit Risk Transfer Transactions.”

Providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners

We continued to provide reliable, large-scale access to affordable mortgage credit to the U.S. housing market and to help struggling homeowners in the second quarter of 2017:

- We provided approximately $135 billion in liquidity to the mortgage market in the second quarter of 2017 through our purchases of loans and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 222,000 mortgage refinancings and approximately 316,000 home purchases, and provided financing for approximately 162,000 units of multifamily housing.
- We provided approximately 27,000 loan workouts in the second quarter of 2017 to help homeowners stay in their homes or otherwise avoid foreclosure.
- We helped borrowers refinance loans, including through our Refi Plus™ initiative, which offers refinancing flexibility to eligible borrowers who are current on their loans, whose loans are owned or guaranteed by us and who meet certain additional criteria. We acquired approximately 24,000 Refi Plus loans in the second quarter of 2017. Refinancings delivered to us through Refi Plus in the second quarter of 2017 reduced borrowers’ monthly mortgage payments by an average of $176.
- We support affordability in the multifamily rental market. This has become more challenging in recent years as rent growth has outpaced wage growth, making units at many income levels less affordable than in prior years. Approximately 90% of the multifamily units we financed in the second quarter of 2017 were affordable to families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

Serving customer needs by building a company that is efficient, innovative and continuously improving

We are committed to providing our lender customers with the products, services and tools they need to serve the housing market more effectively and efficiently, as well as continuing to improve our business processes. For information on enhancements we have recently made or are currently working on, see “Business—Executive Summary—Our Strategy and Business Objectives” in our 2016 Form 10-K.

Treasury Draws and Dividend Payments

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

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

____

(1) Under the terms of the senior preferred stock purchase agreement, dividend payments we make to Treasury do not offset our prior draws of funds from Treasury, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is \$117.1 billion, due to the initial \$1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the \$116.1 billion we have drawn from Treasury. Amounts may not sum due to rounding.

(2) Treasury draws are shown in the period for which requested, not when the funds were received by us. We have not requested a draw for any period since 2012.

The dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is \$600 million for each quarter of 2017 and will decrease to zero in 2018. These are referred to as "net worth sweep" dividend provisions. As a result of these provisions, we will pay Treasury a dividend of \$3.1 billion for the third quarter of 2017 by September 30, 2017, calculated based on our net worth of \$3.7 billion as of June 30, 2017, less the current capital reserve amount of \$600 million, if our conservator declares a dividend in this amount before September 30, 2017. To the extent that these quarterly dividends are not paid, they will accumulate and be added to the liquidation preference of the senior preferred stock. This would not affect the amount of available funding from Treasury under the senior preferred stock purchase agreement.

If we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding

under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, see “Business—Conservatorship and Treasury Agreements—Treasury Agreements” in our 2016 Form 10-K. See “Risk Factors” in our 2016 Form 10-K for a discussion of the risks associated with our limited and declining capital reserves, and “Outlook” in this report for our current expectations about our future financial results.

On May 11, 2017, the Director of FHFA testified before the U.S. Senate Committee on Banking, Housing and Urban Affairs that a draw by Fannie Mae or Freddie Mac could erode investor confidence, which could affect liquidity and increase the cost of mortgage credit for borrowers. To avoid a draw, the Director indicated that FHFA has the authority to withhold dividend payments without the consent of Treasury, but that his first option would be to work with the Secretary of the Treasury. He further stated that any action FHFA may take to avoid additional draws would not be intended to influence the outcome of housing finance reform or as a step toward “recap and release,” which refers to proposals by some investors to recapitalize Fannie Mae and Freddie Mac with private capital and release them from conservatorship. On May 18, 2017, the Secretary of the Treasury testified before the same committee and stated that it was Treasury’s expectation that dividends should be paid per the terms of the senior preferred stock purchase agreement.

As described in “Legal Proceedings” and “Note 15, Commitments and Contingencies,” several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against one or more of the United States, Treasury and FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac, including challenges to the net worth sweep dividend provisions of the senior preferred stock. We are also a party to some of those lawsuits. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits.

2017 Market Share

We were the largest issuer of single-family mortgage-related securities in the secondary market in the second quarter of 2017. Our estimated market share of new single-family mortgage-related securities issuances was 39% in both the first and second quarter of 2017, compared with 38% in the second quarter of 2016. The chart below shows our market share of single-family mortgage-related securities issuances in the second quarter of 2017 compared with that of our primary competitors.

We remained a continuous source of liquidity in the multifamily market in the second quarter of 2017. We owned or guaranteed approximately 20% of the outstanding debt on multifamily properties as of March 31, 2017 (the latest date for which information is available).

Outlook

In this section, we present a number of estimates and expectations regarding our future performance, as well as future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. See "Forward-Looking Statements" and "Risk Factors" in this report and in our 2016 Form 10-K for discussions of factors that could cause actual results to differ materially from our current estimates and expectations. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

Financial Results. We continued to be profitable in the second quarter of 2017, with net income of $3.2 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Although we expect to remain profitable on an annual basis for the foreseeable future, due to our limited and declining capital reserves (which decrease to zero in 2018) and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter. If we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership.

Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation, corporate income tax reform legislation and changes in accounting standards. For example, the current Administration proposes reducing the U.S. corporate income tax rate. Under applicable accounting standards, a significant reduction in the U.S. corporate income tax rate would require that we record a substantial reduction in the value of our deferred tax assets in the quarter in which the legislation is enacted. Thus, if legislation significantly lowering the U.S. corporate income tax rate is enacted, we expect to incur a significant net loss and net worth deficit for the quarter in which the legislation is enacted and we could potentially incur a net loss for that year. As noted above, if we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership.

See "Risk Factors" in our 2016 Form 10-K and in this report for discussions of the risks associated with our limited and declining capital reserves and the potential impact of legislative and regulatory actions.

Revenues. We have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets.

Our guaranty fee revenues consist of two primary components: (1) the base guaranty fees that we receive over the life of the loan; and (2) upfront fees we receive at loan acquisition which are amortized over the contractual life of the loan. When mortgage loans prepay faster due to a lower interest rate environment, we typically have higher amortization income. Conversely, when mortgage loans prepay more slowly due to a higher interest rate environment, we typically have lower amortization income. Our guaranty fee revenues increased in recent years primarily driven by: (1) loans with higher base guaranty fees comprising a larger part of our guaranty book of business; and (2) an increase in amortization income as a lower interest rate environment during portions of these years increased prepayments on mortgage loans. We expect loans with lower guaranty fees to continue to liquidate from our book of business and be replaced with new loans that typically have higher guaranty fees, which will contribute to increasing guaranty fee revenues; however, the impact of this trend on our guaranty fee revenues could be offset by lower amortization income if interest rates remain at higher levels and result in lower prepayments on mortgage loans. Accordingly, our guaranty fee revenues may remain relatively flat in the near term.

We expect the size of our retained mortgage portfolio to continue to decrease each year to meet the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap, which we describe

in “Business—Conservatorship and Treasury Agreements—Treasury Agreements” in our 2016 Form 10-K. These decreases in our retained mortgage portfolio will continue to negatively impact our net interest income and net revenues.

Factors that may affect our future revenues include: changes to guaranty fee pricing we may make in the future and their impact on our competitive environment and guaranty fee revenues; economic and housing market conditions, including changes in interest rates and home prices; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio; our market share; and legislative and regulatory changes.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 2.6% in the second quarter of 2017 and by 3.7% in the first half of 2017. We expect the rate of home price appreciation on a national basis in 2017 will be similar to the estimated 5.8% home price appreciation rate in 2016. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $1.8 billion for the first half of 2017, down from $2.4 billion for the first half of 2016. We expect our credit losses for 2017 to be lower than for 2016; however, we expect a significantly smaller decline in credit losses for 2017 than the $7.0 billion decline for 2016. See "Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics" for a discussion of our credit losses for the second quarter and first half of 2017 and 2016.

Loss Reserves. Our allowance for loan losses was $20.4 billion as of June 30, 2017, down from $23.5 billion as of December 31, 2016. Our loss reserves declined in recent years and are expected to decline further in 2017. For a discussion of the factors that contributed to the decline in our loss reserves in the second quarter and first half of 2017, see "Consolidated Results of Operations—Credit-Related Income (Expense)" and "Consolidated Balance Sheet Analysis—Mortgage Loans and Allowance for Loan Losses."

Legislation and Regulation

The information in this section updates and supplements information regarding legislation and regulation affecting our business set forth in "Business—Legislation and Regulation" in our 2016 Form 10-K and in "MD&A—Legislation and Regulation" in our First Quarter 2017 Form 10-Q. Also see "Risk Factors" in this report and in our 2016 Form 10-K for discussions of risks relating to legislative and regulatory matters.

Housing Finance Reform

Congress continues to consider housing finance reform that could result in significant changes in our structure and role in the future. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors" for a discussion of the risks to our business relating to the uncertain future of our company.

Treasury Report on Financial System

In June 2017, in response to an executive order, the Secretary of the Treasury released a report titled "A Financial System That Creates Economic Opportunities: Banks and Credit Unions" recommending changes to financial services regulations. The report does not cover housing finance reform; however, the report makes a number of recommendations relating to regulations affecting the mortgage industry, including regulations relating to mortgage loan origination, mortgage loan servicing and private sector secondary mortgage market activities. The report also makes recommendations relating to bank capital and liquidity standards that, if implemented, could affect demand for our debt and MBS securities. Many of the report's recommendations could be completed through regulatory actions, and do not require legislation.

Conservatorship Capital Framework

We have worked with FHFA and Freddie Mac on an aligned risk measurement framework for evaluating Fannie Mae and Freddie Mac business decisions and performance during conservatorship. FHFA has directed Fannie Mae and Freddie Mac to implement these conservatorship capital framework standards. The framework includes specific requirements relating to risk and modeled returns on our new acquisitions. We will be required to submit quarterly reports to FHFA relating to the framework's requirements starting later this year. We continuously review our business decisions as they relate to existing and prospective capital framework standards and at this time expect the conservatorship capital framework to result in limited change to our business decision making.

Fannie
Mae
Second
Quarter
2017
Form
10-Q

Duty to Serve Plan

In May 2017, FHFA published our proposed duty to serve underserved markets plan and requested public input on the plan by July 10, 2017. The proposed plan describes specific activities and objectives we propose to undertake from 2018 to 2020 to fulfill our duty to serve obligations in each underserved market—manufactured housing, affordable housing preservation and rural markets. The final plan must receive a non-objection letter from FHFA. Under the current timetable set forth by FHFA, we anticipate our first duty to serve underserved markets plan will become effective in 2018.

Proposed Housing Goals for 2018-2020

In June 2017, FHFA published a proposed rule that would establish new single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2018 through 2020. Comments on the proposed rule are due in September 2017. FHFA will issue a final rule after considering the comments received on the proposed rule.

Proposed Single-Family Housing Goals

Under FHFA's proposed rule, FHFA would continue to evaluate our performance against the single-family housing goals using a two-part approach that compares the goals-qualifying share of our single-family mortgage acquisitions against both a benchmark level and a market level. To meet a single-family housing goal or subgoal, the percentage of our mortgage acquisitions that meet each goal or subgoal must meet or exceed either the benchmark level set in advance by FHFA or the market level for that year. The market level is determined retrospectively each year based on actual goals-qualifying originations in the primary mortgage market as measured by FHFA based on Home Mortgage Disclosure Act data for that year. Typically, this data is made available in September.

FHFA has proposed the following single-family home purchase and refinance housing goal benchmarks for 2018 through 2020. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- Low-Income Families Home Purchase Benchmark: At least 24% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income not in excess of 80% of area median income). This is the same benchmark currently applicable for 2017.
- Very Low-Income Families Home Purchase Benchmark: At least 6% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income not greater than 50% of area median income). This is the same benchmark currently applicable for 2017.
- Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income not in excess of 100% of area median income) in designated disaster areas.
- Low-Income Areas Home Purchase Subgoal Benchmark: At least 15% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts. This is an increase from the benchmark of 14% currently applicable for 2017.
- Low-Income Families Refinancing Benchmark: At least 21% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is the same benchmark currently applicable for 2017.

Proposed Multifamily Housing Goals

FHFA has proposed the following multifamily goals and subgoals for 2018 through 2020.

- Low-Income Families Goal: At least 315,000 multifamily units per year financed by us must be affordable to low-income families. This is an increase from the goal of 300,000 units currently applicable for 2017.
- Very Low-Income Families Subgoal: At least 60,000 multifamily units per year financed by us must be affordable to very low-income families. This is the same subgoal currently applicable for 2017.

- Small Affordable Multifamily Properties Subgoal: At least 10,000 multifamily units per year financed by us must be affordable to low-income families in small multifamily rental properties (5 to 50 units). This is the same subgoal currently applicable for 2017.

There is no market-based alternative measurement for the multifamily goal or subgoals.

Consolidated Results of Operations

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

Table 1: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Variance	2017	2016	Variance
	(Dollars in millions)					
Net interest income	$5,002	$5,286	$(284)	$10,348	$10,055	$293
Fee and other income	353	174	179	602	377	225
Net revenues	5,355	5,460	(105)	10,950	10,432	518
Investment gains, net	385	398	(13)	376	467	(91)
Fair value losses, net	(691)	(1,667)	976	(731)	(4,480)	3,749
Administrative expenses	(686)	(678)	(8)	(1,370)	(1,366)	(4)
Credit-related income:						
Benefit for credit losses	1,267	1,601	(334)	1,663	2,785	(1,122)
Foreclosed property expense	(34)	(63)	29	(251)	(397)	146
Total credit-related income	1,233	1,538	(305)	1,412	2,388	(976)
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	(518)	(453)	(65)	(1,021)	(893)	(128)
Other expenses, net	(291)	(254)	(37)	(673)	(518)	(155)
Income before federal income taxes	4,787	4,344	443	8,943	6,030	2,913
Provision for federal income taxes	(1,587)	(1,398)	(189)	(2,970)	(1,948)	(1,022)
Net income	$3,200	$2,946	$254	$5,973	$4,082	$1,891
Total comprehensive income	$3,117	$2,869	$248	$5,896	$3,805	$2,091

Net Interest Income

We have two primary sources of net interest income: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets.

Guaranty fees consist of two primary components: (1) base guaranty fees that we receive over the life of the loan; and (2) upfront fees that we receive at the time of loan acquisition, primarily related to single-family loan level pricing adjustments and other fees we receive from lenders, which are amortized over the contractual life of the loan. Guaranty fees include revenues generated by the 10 basis point increase in guaranty fees we implemented in 2012 pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our Fannie Mae MBS in consolidated trusts on our balance sheet. Those guaranty fees are the primary component of the difference between the interest income on loans in consolidated trusts and the interest expense on the debt of consolidated trusts.

Q2

Table 2 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 3 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 2: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,							
	2017				2016			
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid		Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	
	(Dollars in millions)							
Interest-earning assets:								
Mortgage loans of Fannie Mae	$190,255	$1,978	4.16	%	$232,722	$2,390	4.11	%
Mortgage loans of consolidated trusts	2,951,028	25,033	3.39		2,822,502	23,866	3.38	
Total mortgage loans[1]	3,141,283	27,011	3.44		3,055,224	26,256	3.44	
Mortgage-related securities, net	13,860	127	3.64		23,060	241	4.18	
Non-mortgage-related securities[2]	54,542	140	1.02		53,217	57	0.42	
Other[3]	41,344	115	1.10		26,781	46	0.68	
Total interest-earning assets	$3,251,029	$27,393	3.37	%	$3,158,282	$26,600	3.37	%
Interest-bearing liabilities:								
Short-term funding debt	$30,320	$56	0.73	%	$56,132	$56	0.40	%
Long-term funding debt	281,987	1,629	2.31		303,397	1,736	2.29	
Total funding debt	312,307	1,685	2.16		359,529	1,792	1.99	
Debt securities of consolidated trusts held by third parties	2,949,510	20,706	2.81		2,819,018	19,522	2.77	
Total interest-bearing liabilities	$3,261,817	$22,391	2.75	%	$3,178,547	$21,314	2.68	%
Net interest income/net interest yield		$5,002	0.62	%		$5,286	0.67	%

	For the Six Months Ended June 30,							
	2017				2016			
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid		Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	
	(Dollars in millions)							
Interest-earning assets:								
Mortgage loans of Fannie Mae	$195,302	$4,071	4.17	%	$235,338	$4,725	4.02	%
Mortgage loans of consolidated trusts	2,937,007	49,987	3.40		2,820,153	48,492	3.44	
Total mortgage loans[1]	3,132,309	54,058	3.45		3,055,491	53,217	3.48	
Total mortgage-related securities, net	14,627	269	3.66		24,821	510	4.11	
Non-mortgage-related securities[2]	55,264	241	0.87		51,737	111	0.43	
Other[3]	43,207	209	0.96		27,260	94	0.68	
Total interest-earning assets	$3,245,407	$54,777	3.38	%	$3,159,309	$53,932	3.41	%
Interest-bearing liabilities:								
Short-term funding debt	$31,381	$99	0.63	%	$58,109	$106	0.36	%
Long-term funding debt	285,894	3,315	2.32		311,170	3,590	2.31	
Total funding debt	317,275	3,414	2.15		369,279	3,696	2.00	
Total debt securities of consolidated trusts held by third parties	2,937,399	41,015	2.79		2,809,727	40,181	2.86	
Total interest-bearing liabilities	$3,254,674	$44,429	2.73	%	$3,179,006	$43,877	2.76	%
Net interest income/net interest yield		$10,348	0.64	%		$10,055	0.64	%

	As of June 30,	
	2017	2016
Selected benchmark interest rates		
3-month LIBOR	1.30%	0.65%
2-year swap rate	1.62	0.73
5-year swap rate	1.96	0.98
10-year swap rate	2.28	1.36
30-year Fannie Mae MBS par coupon rate	3.03	2.31

____

(1) Average balance includes mortgage loans on nonaccrual status. Typically, interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was $186 million and $402 million, respectively, for the second quarter and first half of 2017, compared with $321 million and $659 million, respectively, for the second quarter and first half of 2016.

(2) Includes cash equivalents.

(3) Consists of federal funds sold and securities purchased under agreements to resell or similar arrangements and advances to lenders.

Form
10-Q

Table 3: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended June 30, 2017 vs. 2016			For the Six Months Ended June 30, 2017 vs. 2016		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(412)	$(441)	$29	$(654)	$(829)	$175
Mortgage loans of consolidated trusts	1,167	1,090	77	1,495	1,993	(498)
Total mortgage loans	755	649	106	841	1,164	(323)
Mortgage-related securities, net	(114)	(87)	(27)	(241)	(193)	(48)
Non-mortgage-related securities[2]	83	1	82	130	8	122
Other[3]	69	22	47	115	53	62
Total interest income	$793	$585	$208	$845	$1,032	$(187)
Interest expense:						
Short-term funding debt	—	(33)	33	(7)	(63)	56
Long-term funding debt	(107)	(124)	17	(275)	(293)	18
Total funding debt	(107)	(157)	50	(282)	(356)	74
Debt securities of consolidated trusts held by third parties	1,184	923	261	834	1,862	(1,028)
Total interest expense	$1,077	$766	$311	$552	$1,506	$(954)
Net interest income	$(284)	$(181)	$(103)	$293	$(474)	$767

____

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

(2) Includes cash equivalents.

(3) Consists of federal funds sold and securities purchased under agreements to resell or similar arrangements and advances to lenders.

Net interest income and net interest yield decreased in the second quarter of 2017 compared with the second quarter of 2016 due to a decline in the average balance of our retained mortgage portfolio as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The decrease in net interest income was partially offset by a slight increase in guaranty fee income driven by (1) loans with higher base guaranty fees comprising a larger part of our guaranty book of business in the second quarter of 2017 compared with the second quarter of 2016; almost entirely offset by (2) a decrease in the amortization of upfront fees driven by lower prepayments on mortgage loans and liquidations of MBS debt of consolidated trusts, which reduced the amortization of cost basis adjustments on the loans and related debt.

Net interest income increased in the first half of 2017 compared with the first half of 2016 due to an increase in guaranty fee income driven by: (1) an increase in amortization income in the first half of 2017 due to activity related to increased prepayments on mortgage loans and liquidations of MBS debt of consolidated trusts, which accelerated the amortization of cost basis adjustments on the loans and related debt; and (2) loans with higher base guaranty fees comprising a larger part of our guaranty book of business in the first half of 2017 compared with the first half of 2016. The increase in net interest income due to higher guaranty fee income was partially offset by a decline in the average balance of our retained mortgage portfolio as we continued to reduce this portfolio. See "Retained Mortgage Portfolio" for information about our retained mortgage portfolio.

Fair Value Losses, Net

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

Table 4 displays the components of our fair value gains and losses.

Table 4: Fair Value Losses, Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(224)	$(291)	$(479)	$(560)
Net change in fair value during the period	(78)	(899)	289	(3,001)
Total risk management derivatives fair value losses, net	(302)	(1,190)	(190)	(3,561)
Mortgage commitment derivatives fair value losses, net	(192)	(367)	(272)	(729)
Total derivatives fair value losses, net	(494)	(1,557)	(462)	(4,290)
Trading securities gains, net	18	22	86	50
CAS debt fair value losses, net[1]	(169)	(168)	(331)	(228)
Other, net[2]	(46)	36	(24)	(12)
Fair value losses, net	$(691)	$(1,667)	$(731)	$(4,480)

[1] Consists of fair value losses on CAS debt reported at fair value.

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

Fair value losses in the second quarter and first half of 2017 were primarily driven by:

- decreases in the fair value of our pay-fixed risk management derivatives due to declines in longer-term swap rates during the second quarter;
- decreases in the fair value of our mortgage commitments due to losses on commitments to sell mortgage-related securities due to an increase in prices as interest rates decreased during the commitment periods; and
- fair value losses on CAS debt reported at fair value resulting from tightening spreads between CAS debt yields and LIBOR during the periods.

Fair value losses in the second quarter and first half of 2016 were primarily due to losses on risk management derivatives resulting from decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the second quarter and first half of 2016.

Credit-Related Income (Expense)

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

Provision (Benefit) for Credit Losses

Our combined loss reserves provide for an estimate of credit losses incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans. We establish our combined loss reserves through our provision for credit losses for losses that we believe have been incurred and will eventually be

realized over time in our financial statements. When we reduce our combined loss reserves, we recognize a benefit for credit losses. When we determine that a loan is uncollectible, typically upon foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale), we recognize a charge-off against our

---

combined loss reserves. For a subset of delinquent single-family loans, we charge off the portion of the loans that is deemed uncollectible prior to foreclosure when the loans have been delinquent for a specified length of time and meet specified mark-to-market LTV ratios. We also recognize a charge-off upon the redesignation of loans from HFI to HFS. If the amounts charged off upon redesignation exceed the allowance related to the loans, we record a provision for credit losses. If the amounts charged off are less than the allowance related to the loans, we recognize a benefit for credit losses. We record recoveries of previously charged-off amounts as a reduction to charge-offs.

Table 5 displays the changes in the combined loss reserves, which consists of the allowance for loan losses and the reserve for guaranty losses.

Table 5: Changes in Combined Loss Reserves

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Changes in combined loss reserves:				
Beginning balance	$22,526	$26,332	$23,835	$28,590
Benefit for credit losses	(1,267)	(1,601)	(1,663)	(2,785)
Charge-offs	(704)	(828)	(1,766)	(2,131)
Recoveries	179	164	298	329
Other	8	22	38	86
Ending balance	$20,742	$24,089	$20,742	$24,089

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$20,553	$23,639
Multifamily	189	196
Total	$20,742	$23,835
Single-family and multifamily		

combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	0.72 %	0.83 %
Multifamily	0.07	0.08
Combined loss reserves as a percentage of:		
Total guaranty book of business	0.66 %	0.77 %
Recorded investment in nonaccrual loans	55.06	53.62

The amount of our provision or benefit for credit losses may vary from period to period based on a number of factors, such as changes in actual and expected home prices, fluctuations in interest rates, borrower payment behavior, the types and volumes of our loss mitigation activities, the volume of foreclosures completed, and redesignations of loans from HFI to HFS. In addition, our provision or benefit for credit losses and our combined loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

The following factors contributed to our benefit for credit losses in the second quarter and first half of 2017:

- Actual and forecasted home prices increased in the period. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our combined loss reserves and provision for credit losses.

- We redesignated certain reperforming and nonperforming single-family loans from HFI to HFS during the period as we no longer intend to hold them to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value via a charge-off to the allowance for loan losses. Amounts recorded in the allowance related to the loans exceeded the amount charged off, contributing to the benefit for credit losses.

The following factors contributed to our benefit for credit losses in the second quarter and first half of 2016:

- Home prices, including distressed property valuations, increased during the second quarter and first half of 2016.
- Actual and projected mortgage interest rates declined during the second quarter and first half of 2016. As mortgage interest rates decline, we expect an increase in future prepayments on single-family individually impaired loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the impairment relating to concessions provided on these loans and results in a decrease in the provision for credit losses.

We discuss our expectations regarding our future loss reserves in "Executive Summary—Outlook—Loss Reserves."

Troubled Debt Restructurings and Nonaccrual Loans

Table 6 displays the composition of loans restructured in a troubled debt restructuring ("TDR") that are on accrual status and loans on nonaccrual status. The table includes our recorded investment in HFI and HFS mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see "Note 3, Mortgage Loans."

Table 6: Troubled Debt Restructurings and Nonaccrual Loans

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
TDRs on accrual status:		
Single-family	$123,183	$127,353
Multifamily	95	141
Total TDRs on accrual status	$123,278	$127,494
Nonaccrual loans:		
Single-family	$37,331	$44,047
Multifamily	341	403
Total nonaccrual loans	$37,672	$44,450
Accruing on-balance sheet loans past due 90 days or more[1]	$304	$402

	For the Six Months Ended June 30, 2017	2016
	(Dollars in millions)	
Interest related to on-balance sheet TDRs and nonaccrual loans:		
Interest income forgone[2]	$1,781	$2,345
Interest income recognized for the period[3]	2,886	3,103

---

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

(2)

Represents the amount of interest income we did not recognize, but would have recognized during the period for nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

(3) Represents interest income recognized during the period, including the amortization of any deferred cost basis adjustments, for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period. Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Credit Loss Performance Metrics

Our credit-related income (expense) should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within generally accepted accounting principles ("GAAP") and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonaccrual loans and TDRs, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 7 displays the components of our credit loss performance metrics as well as our single-family and multifamily initial charge-off severity rates.

Table 7: Credit Loss Performance Metrics

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2017		2016		2017		2016	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)							
Charge-offs, net of recoveries	$525	6.7 bps	$664	8.8 bps	$1,468	9.4 bps	$1,802	11.8 bps
Foreclosed property expense	34	0.4	63	0.8	251	1.6	397	2.6
Credit losses including the effect of fair value losses on acquired credit-impaired loans	559	7.1	727	9.6	1,719	11.0	2,199	14.4
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense[2]	61	0.8	90	1.1	122	0.8	190	1.3
Credit losses and credit loss ratio	$620	7.9 bps	$817	10.7 bps	$1,841	11.8 bps	$2,389	15.7 bps
Credit losses attributable to:								
Single-family	$618		$812		$1,839		$2,381	
Multifamily	2		5		2		8	
Total	$620		$817		$1,841		$2,389	
Single-family initial charge-off severity rate[3]		13.6%		17.3%		15.9%		21.4%
Multifamily initial charge-off severity rate[3][4]		— %		1.0 %		— %		12.3%

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

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

(3) Single-family and multifamily rates exclude fair value losses on credit-impaired loans acquired from MBS trusts and any costs, gains or losses associated with real estate owned ("REO") after initial acquisition through final disposition. The single-family rate includes charge-offs pursuant to the provisions of FHFA's Advisory Bulletin 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" and charge-offs of property tax and insurance receivables, while it excludes charge-offs from short sales and third-party sales. Multifamily rate is net of risk sharing agreements.

(4)

(1) Reflects two loans in the second quarter of 2017 and three loans in the first half of 2017 that were foreclosed without any credit losses.

Credit losses and our credit loss ratio decreased in the second quarter and first half of 2017 compared with the second quarter and first half of 2016 primarily due to lower charge-offs as a result of lower delinquencies.

We discuss our expectations regarding our future credit losses in "Executive Summary—Outlook—Credit Losses."

Table 8 displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

Table 8: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[(1)] As of			Percentage of Single-Family Credit Losses[(2)]			
	June 30,	December 31,	June 30,	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2016	2017	2016	2017	2016
Geographical Distribution:							
California	19 %	19 %	20 %	12 %	1 %	9 %	2 %
Florida	6	6	6	14	4	13	8
Illinois	4	4	4	10	8	9	8
New Jersey	4	4	4	14	19	13	18
New York	5	5	5	9	19	11	22
All other states	62	62	61	41	49	45	42
Select higher-risk product features[(3)]	21	21	22	73	57	62	58
Vintages:[(4)]							
2004 and prior	4	5	5	3	16	10	17
2005 - 2008	7	8	9	69	59	67	65
2009 - 2017	89	87	86	28	25	23	18

____

(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 as of the end of each period.

(2) Excludes the impact of recoveries resulting from resolution agreements related to representation and warranty matters and compensatory fee income related to servicing matters that have not been allocated to specific loans.

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

(4) Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

As shown in Table 8, the majority of our credit losses for the second quarter and first half of 2017 continued to be driven by loans originated in 2005 through 2008. The percentage of our credit losses in California and Florida were higher in the second quarter and the first half of 2017 compared with the second quarter and first half of 2016 because a large portion of the reperforming loans that were redesignated as HFS and charged-off in the second quarter and first

half of 2017 related to properties in those states. We provide more detailed single-family credit performance information, including serious delinquency rate share and foreclosure activity, in “Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management.”

Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) Fees

Pursuant to the TCCA, in 2012, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in “Net interest income” and the expense is recognized as “TCCA fees.” TCCA fees increased in the second quarter and first half of 2017 compared with the second quarter and first half of 2016 as our book of business subject to the TCCA continued to grow. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Consolidated Balance Sheet Analysis

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

Table 9: Summary of Condensed Consolidated Balance Sheets

	As of		
	June 30, 2017	December 31, 2016	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$46,124	$55,639	$(9,515)
Restricted cash	30,999	36,953	(5,954)
Investments in securities[(1)]	45,682	48,925	(3,243)
Mortgage loans:			
Of Fannie Mae	185,635	207,190	(21,555)
Of consolidated trusts	2,960,179	2,896,028	64,151
Allowance for loan losses	(20,399)	(23,465)	3,066
Mortgage loans, net of allowance for loan losses	3,125,415	3,079,753	45,662
Deferred tax assets, net	31,402	33,530	(2,128)
Other assets	29,608	33,168	(3,560)
Total assets	$3,309,230	$3,287,968	$21,262
Liabilities and equity			
Debt:			
Of Fannie Mae	$303,120	$327,097	$(23,977)
Of consolidated trusts	2,984,547	2,935,219	49,328
Other liabilities	17,846	19,581	(1,735)
Total liabilities	3,305,513	3,281,897	23,616
Equity	3,717	6,071	(2,354)
Total liabilities and equity	$3,309,230	$3,287,968	$21,262

____

(1) Includes $32.4 billion as of June 30, 2017 and $32.3 billion as of December 31, 2016 of U.S. Treasury securities that are included in our other investments portfolio.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements, and investments in U.S. Treasury securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by servicers of loans backing consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash

decreased as of June 30, 2017 compared with the balance as of December 31, 2016 primarily as a result of a decrease in prepayments received on mortgage loans in June 2017 compared with prepayments received in December 2016.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Table 10 displays the fair value of our investments in trading and available-for-sale mortgage-related securities. We classify private-label securities as Alt-A, subprime or commercial mortgage-backed securities ("CMBS") if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty.

Table 10: Summary of Mortgage-Related Securities at Fair Value

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$6,549	$ 7,323
Other agency	2,401	2,605
Alt-A and subprime private-label securities	2,755	3,345
CMBS	275	1,580
Mortgage revenue bonds	874	1,293
Other mortgage-related securities	410	462
Total	$13,264	$ 16,608

The decrease in mortgage-related securities at fair value from December 31, 2016 to June 30, 2017 was primarily driven by liquidations and sales of securities.

See "Note 5, Investments in Securities" for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of June 30, 2017 and December 31, 2016.

Mortgage Loans and Allowance for Loan Losses

The increase in mortgage loans, net of allowance, from December 31, 2016 to June 30, 2017 was driven by an increase in mortgage loans of consolidated trusts as we continued to add to our guaranty book of business through securitization activity. Partially offsetting this was a decline in mortgage loans of Fannie Mae resulting from liquidations, portfolio securitizations and sales. For additional information on our mortgage loans, see "Note 3, Mortgage Loans."

The decrease in our allowance for loan losses from December 31, 2016 to June 30, 2017 was driven primarily by the redesignations of loans from HFI to HFS, liquidations and an increase in actual and forecasted home prices. See "Consolidated Results of Operations—Credit-Related Income (Expense)—Provision (Benefit) for Credit Losses" for more information.

Other Assets

The decrease in other assets from December 31, 2016 to June 30, 2017 was primarily driven by a decrease in advances to lenders as a result of lower lender funding needs. For additional information on our accounting policy for advances to lenders, refer to "Note 1, Summary of Significant Accounting Policies" in our 2016 Form 10-K.

Debt

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

The decrease in debt of Fannie Mae from December 31, 2016 to June 30, 2017 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. The increase in debt of consolidated trusts from

---

December 31, 2016 to June 30, 2017 was primarily driven by sales of Fannie Mae MBS, which are accounted for as issuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

Stockholders' Equity

Our net equity decreased as of June 30, 2017 compared with December 31, 2016 due to our payments of senior preferred stock dividends to Treasury during the first half of 2017, partially offset by our comprehensive income recognized during the first half of 2017.

Retained Mortgage Portfolio

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

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury and FHFA's additional cap, as described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2016 Form 10-K. We plan to reduce our retained mortgage portfolio to no more than the FHFA cap of $259.6 billion as of December 31, 2017, which also would be in compliance with the senior preferred stock purchase agreement cap of $288.4 billion. Table 11 displays the unpaid principal balance of our retained mortgage portfolio.

Table 11: Retained Mortgage Portfolio

	As of June 30, 2017	December 31, 2016
	(Dollars in millions)	
Single-family:		
Mortgage loans[1]	$163,411	$181,219
Reverse mortgages	28,047	29,443
Mortgage-related securities:		
Agency securities[2]	34,874	25,667
Fannie Mae-wrapped reverse mortgage securities	7,064	7,420
Other Fannie Mae-wrapped securities	3,613	3,773
Private-label and other securities	4,009	4,980
Total single-family mortgage-related securities[3]	49,560	41,840
Total single-family mortgage loans and mortgage-related securities	241,018	252,502
Multifamily:		
Mortgage loans[4]	5,736	9,407
Mortgage-related securities:		
Agency securities[2]	7,985	7,693
CMBS	276	1,567
Mortgage revenue bonds	783	1,185
Total multifamily mortgage-related securities[5]	9,044	10,445
Total multifamily mortgage loans and mortgage-related securities	14,780	19,852
Total retained mortgage portfolio	$255,798	$272,354

____

(1) Includes single-family loans restructured in a TDR that were on accrual status of $103.5 billion and $119.4 billion as of June 30, 2017 and December 31, 2016, respectively, and single-family loans on nonaccrual status of $33.3 billion and $38.7 billion as of June 30, 2017 and December 31, 2016, respectively.

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

(3) The fair value of these single-family mortgage-related securities was $51.6 billion and $42.9 billion as of June 30, 2017 and December 31, 2016, respectively.

(4) Includes multifamily loans restructured in a TDR that were on accrual status of $89 million and $131 million as of June 30, 2017 and December 31, 2016, respectively, and multifamily loans on nonaccrual status of $171 million and $246 million as of June 30, 2017 and December 31, 2016, respectively.

(5) The fair value of these multifamily mortgage-related securities was $9.7 billion and $11.2 billion as of June 30, 2017 and December 31, 2016, respectively.

In support of our loss mitigation strategy, we purchased $6.2 billion of loans from our single-family MBS trusts in the first half of 2017, the substantial majority of which were delinquent. See "Business—Mortgage Securitizations—Purchases of Loans from Our MBS Trusts" in our 2016 Form 10-K for more information relating to our purchases of loans from MBS trusts.

We primarily use our retained mortgage portfolio to: (1) provide liquidity to the mortgage market and (2) support our loss mitigation activities. Previously, we also used our retained mortgage portfolio for investment purposes.

Table 12 below separates the instruments within our retained mortgage portfolio by unpaid principal balance into three categories based on each instrument's use. "Lender liquidity," which includes balances related to our whole loan conduit activity, supports our efforts to provide liquidity to the Single-Family and Multifamily mortgage markets. "Loss mitigation" supports our loss mitigation efforts through the purchase of delinquent loans from MBS trusts. "Other" represents assets that were previously purchased for investment purposes. More than half of the balance of "Other" consisted of reverse mortgage loans and Fannie Mae-wrapped reverse mortgage securities as of June 30, 2017 and December 31, 2016.

Table 12: Retained Mortgage Portfolio Profile

	As of June 30, 2017				December 31, 2016			
	Single-Family	Multifamily	Total	% of Mortgage Credit Book of Business	Single-Family	Multifamily	Total	% of Mortgage Credit Book of Business
	(Dollars in millions)							
Lender liquidity	$49,956	$ 7,985	$57,941	2 %	$36,272	$ 7,694	$43,966	2 %
Loss mitigation	141,973	260	142,233	4	164,028	376	164,404	5
Other	49,089	6,535	55,624	2	52,202	11,782	63,984	2
Total	$241,018	$ 14,780	$255,798	8 %	$252,502	$ 19,852	$272,354	9 %

Mortgage Credit Book of Business

Table 13 displays the composition of our mortgage credit book of business based on unpaid principal balance. Our single-family mortgage credit book of business accounted for 92% of our mortgage credit book of business as of June 30, 2017 and December 31, 2016. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

Table 13: Composition of Mortgage Credit Book of Business

	As of					
	June 30, 2017			December 31, 2016		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[1]	$2,865,372	$ 244,701	$3,110,073	$2,838,086	$ 229,896	$3,067,982
Unconsolidated Fannie Mae MBS, held by third parties[2]	7,014	1,096	8,110	7,795	1,159	8,954
Other credit guarantees[3]	2,004	12,628	14,632	2,193	13,142	15,335
Guaranty book of business	$2,874,390	$ 258,425	$3,132,815	$2,848,074	$ 244,197	$3,092,271
Other agency mortgage-related securities[4]	2,286	—	2,286	2,500	—	2,500
Other mortgage-related securities[5]	4,009	1,059	5,068	4,980	2,752	7,732
Mortgage credit book of business	$2,880,685	$ 259,484	$3,140,169	$2,855,554	$ 246,949	$3,102,503
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[6]	$2,831,398	$ 257,129	$3,088,527	$2,802,572	$ 242,834	$3,045,406
Government Guaranty Book of Business[7]	$42,992	$ 1,296	$44,288	$45,502	$ 1,363	$46,865

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

(2) The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

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

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

(5) Primarily includes mortgage revenue bonds, Alt-A and subprime private-label securities, and CMBS.

(6) Consists of mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

(7) Consists of mortgage loans and mortgage-related securities guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the "GSE Act"), requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases and to pay this amount to specified U.S. Department of Housing and Urban Development ("HUD") and Treasury funds. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. In February 2017, we paid $268 million to the funds based on our new business purchases in 2016. Our new business purchases were $270.9 billion in the first half of 2017. Accordingly, we recognized an expense of $114 million related to this obligation for the first half of 2017. We expect to pay this amount, plus additional amounts to be accrued based on our new business purchases in the second half of 2017, to the funds on or before March 1, 2018. See "Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Affordable Housing Allocations" i our 2016 Form 10-K for more information regarding this obligation.

Business Segments

Overview

We have two reportable business segments: Single-Family and Multifamily. Previously, we had a third reportable business segment, Capital Markets, which was incorporated into the Single-Family and Multifamily segments in the fourth quarter of 2016. Results of our two business segments are intended to reflect each segment as if it were a stand-alone business. We have revised the presentation of our segment results for the prior periods to be consistent with the current period presentation.

This section describes the following for each of our business segments:

- market conditions relating to the business segment;
- the segment's business and financial results; and
- credit risk management relating to the business segment.

This section should be read together with our comparative discussion of our condensed consolidated results of operations in "Consolidated Results of Operations."

Single-Family Business

Single-Family Housing and Mortgage Market and Economic Conditions

According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.6% on an annualized basis in the second quarter of 2017, compared with an increase of 1.2% in the first quarter of 2017. The overall economy gained an estimated 2.2 million non-farm jobs in the second quarter of 2017. According to the U.S. Bureau of Labor Statistics, over the 12 months ending in June 2017, the economy created an estimated 581,000 non-farm jobs. The unemployment rate was 4.4% in June 2017, compared with 4.5% in March 2017.

According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $10.3 trillion of single-family debt outstanding, was estimated to be approximately $11.5 trillion as of March 31, 2017 (the latest date for which information is available) and December 31, 2016.

We forecast that total originations in the U.S. single-family mortgage market in 2017 will decrease from 2016 levels by approximately 20% from an estimated $2.05 trillion in 2016 to $1.65 trillion in 2017, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $991 billion in 2016 to $566 billion in 2017.

Housing sales remained relatively flat in the second quarter of 2017 compared with the first quarter of 2017. Total existing home sales averaged 5.6 million units annualized in the first and second quarter of 2017, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 4.0% of existing home sales in June 2017, compared with 6.0% in March 2017 and June 2016. According to the U.S. Census Bureau, new single-family home sales decreased during the second quarter of 2017, averaging an annualized rate of 597,000 units, a 3.2% decrease from the first quarter of 2017.

The number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes were each below their historical average at the end of the second quarter of 2017. According to the U.S. Census Bureau, the months' supply of new single-family unsold homes was 5.4 months as of June 30, 2017, compared with 5.0 months as of March 31, 2017. According to the National Association of REALTORS®, the months' supply of existing unsold homes was 4.3 months as of June 30, 2017, compared with 3.8 months as of March 31, 2017.

The overall mortgage market serious delinquency rate fell to 2.8% as of March 31, 2017 (the latest date for which information is available), according to the Mortgage Bankers Association's National Delinquency Survey, compared with 3.3% as of March 31, 2016. We provide information about Fannie Mae's serious delinquency rate in "Single-Family Mortgage Credit Risk Management" below.

Based on our home price index, we estimate that home prices on a national basis increased by 2.6% in the second quarter of 2017 and by 3.7% in the first half of 2017, following increases of 5.8% in 2016, 4.6% in 2015 and 4.2% in

2014. We estimate that, in the second quarter of 2017, home prices on a national basis surpassed

the peak previously reached in the third quarter of 2006 for the first time, exceeding the previous 2006 peak by an estimated 2.4%. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Thirty-year fixed-rate mortgage rates ended the quarter at 3.88% for the week of June 30, 2017, down from 4.14% for the week of March 31, 2017, according to Freddie Mac's Primary Mortgage Market Survey®.

Single-Family Business Metrics

Table 14: Single-Family Business Key Performance Data

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Securitization Activity/New Business				
Single-family Fannie Mae MBS issuances	$120,724	$132,086	$248,515	$233,883
Single-family Fannie Mae MBS outstanding, at end of period	$2,713,903	$2,628,583	$2,713,903	$2,628,583
Portfolio Data				
Single-family retained mortgage portfolio, at end of period	$241,018	$291,709	$241,018	$291,709
Credit Guaranty Activity				
Average single-family guaranty book of business[(1)]	$2,870,396	$2,821,243	$2,862,955	$2,824,069
Average charged guaranty fee on single-family guaranty book of business:[(2)]				
Fee, net of TCCA fees (in basis points)[(3)]	42.1	40.7	41.9	40.5
Total fee (in basis points)	49.4	47.2	49.2	46.9
Average charged guaranty fee on new single-family acquisitions:[(4)]				
Fee, net of TCCA fees (in basis points)[(3)]	48.0	47.2	48.3	48.1
Total fee (in basis points)	58.0	57.2	58.3	58.1
Single-family credit loss ratio (in basis points)[(5)]	8.6	11.5	12.8	16.9
Single-family serious delinquency rate, at end of period[(6)]	1.01 %	1.32 %	1.01 %	1.32 %

____

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

(2) Calculated based on the average guaranty fee rate for our single-family guaranty arrangements outstanding during the period plus the recognition of any upfront cash payments over an estimated average life.

(3) Excludes the impact of a 10 basis point guaranty fee increase implemented in 2012 pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

(4) Calculated based on the average guaranty fee rate for our single-family guaranty arrangements entered into during the period plus the recognition of any upfront cash payments over an estimated average life.

(5) Calculated based on single-family segment credit losses divided by the average single-family guaranty book of business.

(6) Calculated based on the number of single-family conventional loans that are 90 days or more past due or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.

Our single-family Fannie Mae MBS issuances decreased in the second quarter of 2017 compared with the second quarter of 2016, driven primarily by a decrease in refinance activity partially offset by an increase in our acquisition of

home purchase mortgage loans in the second quarter of 2017.
Our single-family Fannie Mae MBS issuances increased in the first half of 2017 compared with the first half of 2016, driven primarily by an increase in our acquisition of home purchase mortgage loans partially offset by a decrease in refinance activity in the first half of 2017.

Single-Family Business Financial Results

Table 15: Single-Family Business Financial Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Variance	2017	2016	Variance
	(Dollars in millions)					
Net interest income[1]	$4,366	$4,730	$ (364)	$9,122	$8,975	$ 147
Fee and other income	111	78	33	187	145	42
Net revenues	4,477	4,808	(331)	9,309	9,120	189
Investment gains, net	321	280	41	271	336	(65)
Fair value losses, net	(685)	(1,679)	994	(697)	(4,529)	3,832
Administrative expenses	(600)	(597)	(3)	(1,201)	(1,206)	5
Credit-related income[2]	1,223	1,535	(312)	1,407	2,363	(956)
TCCA fees[1]	(518)	(453)	(65)	(1,021)	(893)	(128)
Other expenses, net	(155)	(252)	97	(411)	(498)	87
Income before federal income taxes	4,063	3,642	421	7,657	4,693	2,964
Provision for federal income taxes	(1,401)	(1,254)	(147)	(2,653)	(1,643)	(1,010)
Net income	$2,662	$2,388	$ 274	$5,004	$3,050	$ 1,954

____

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

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

Single-family net income increased in the second quarter and first half of 2017 compared with the second quarter and first half of 2016. The increase in net income in the second quarter of 2017 compared with the second quarter of 2016 was primarily due to lower fair value losses, partially offset by lower net interest income and lower credit-related income. The increase in net income in the first half of 2017 compared with the first half of 2016 was primarily due to lower fair value losses, partially offset by lower credit-related income.

Single-family net interest income decreased in the second quarter of 2017 compared with the second quarter of 2016, primarily due to a decline in the average balance of our retained mortgage portfolio partially offset by a slight increase in single-family guaranty fee income. Single-family net interest income increased in the first half of 2017 compared with the first half of 2016 due to an increase in single-family guaranty fee income, which was partially offset by a decline in the average balance of our retained mortgage portfolio. The drivers of net interest income for the single-family segment are consistent with the drivers of net interest income reported in our condensed consolidated statements of operations and comprehensive income. See "Consolidated Results of Operations—Net Interest Income" for more information on the drivers of our net interest income.

Fair value losses decreased in the second quarter and first half of 2017 compared with the second quarter and first half of 2016. The fair value losses that are reported for the single-family segment are consistent with the fair value losses reported in our condensed consolidated statements of operations and comprehensive income. We discuss our fair value gains and losses in "Consolidated Results of Operations—Fair Value Losses, Net."

We recognized lower single-family credit-related income in the second quarter and first half of 2017 compared with the second quarter and first half of 2016. Credit-related income in the second quarter and first half of 2017 was driven by an increase in actual and forecasted home prices and the redesignation of loans from HFI to HFS. Credit-related income in the second quarter and first half of 2016 was primarily attributable to an increase in home prices and a decline in actual and projected mortgage interest rates. See "Consolidated Results of Operations—Credit-Related Income (Expense)" for more information on the drivers of our credit-related income.

Single-Family Mortgage Credit Risk Management

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

- our acquisition and servicing policies along with our underwriting and servicing standards;

- the transfer of credit risk through credit risk transfer transactions and the use of credit enhancements;
- portfolio diversification and monitoring;
- management of problem loans; and
- real estate owned ("REO") management.

This section updates our discussion of single-family mortgage credit risk management in our 2016 Form 10-K in "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management." For additional information on how we manage risk, see "MD&A—Risk Management" and "Risk Factors" in our 2016 Form 10-K.

The single-family credit statistics we focus on and report below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business. We exclude from these credit statistics approximately 1% of our single-family conventional guaranty book of business for which our loan level information is incomplete as of June 30, 2017 and December 31, 2016. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information. We rely on a combination of data verification tools we make available to lenders and lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See "Risk Factors" in our 2016 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations. We provide information on non-Fannie Mae mortgage-related securities held in our portfolio in "Note 5, Investments in Securities."

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

For an overview and additional information on our quality control process, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards" in our 2016 Form 10-K.

Recent Changes

Desktop Underwriter® (DU®), our proprietary automated underwriting system, is used by mortgage lenders for a comprehensive assessment of a borrower's loan application. In July 2017, we implemented a number of changes to DU, including the following.

Debt-to-income ratio assessment update. DU's risk assessment is a model-based assessment of a borrower's willingness and ability to repay the loan. DU also includes eligibility overlays that can deem the loan ineligible for delivery to us, regardless of the result from the model-based assessment. Under the prior version of DU, loans with a debt-to-income ratio between 45% and 50% that received an "Approve" recommendation from DU's risk assessment were ineligible for delivery to us unless the loan also had certain compensating factors. Under the current version of DU, this eligibility overlay has been removed; loans with a debt-to-income ratio between 45% and 50% that receive an "Approve" recommendation in DU are now eligible for delivery to us without the additional compensating factors noted above. This change was made possible by a re-estimation of the DU risk assessment that delivers a more accurate evaluation of loans in this debt-to-income ratio range.

We expect a small increase in the average risk of our monthly loan acquisitions as a result of this change. However, the risk associated with these acquisitions is still within the same risk tolerance threshold used in the prior version of DU that determined whether a loan received an "Approve" recommendation. Also, loans with debt-to-income ratios above 50% remain ineligible for delivery to us under the current version of DU.

Adjustable-rate mortgage LTV ratios. The maximum allowable LTV ratios for adjustable-rate mortgages were increased to align with fixed-rate mortgage maximum LTV ratios for all transaction, occupancy and property types, up to a maximum of 95%.

Self-employment income documentation. The criteria used by DU to determine the level of documentation required to verify a self-employed borrower's income has been updated. This will increase the number of self-employed borrowers eligible to provide one year (instead of two years) of personal and business tax return documentation.

Repurchase Requests

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated or a mortgage insurer rescinded coverage, then our mortgage sellers and/or servicers are obligated to either repurchase the loan or foreclosed property, reimburse us for our losses or provide other remedies, unless the loan is eligible for representation and warranty relief as described below. We collectively refer to our demands that mortgage sellers and servicers meet these obligations as repurchase requests. The unpaid principal balance of single-family loans that are subject to a repurchase request has declined significantly since we strengthened our underwriting standards in late 2008 and 2009, implemented changes to our quality control process in 2013 and implemented our revised representation and warranty framework described below. As of June 30, 2017, we had issued repurchase requests on approximately 0.10% of the $532.9 billion of unpaid principal balance of single-family loans delivered to us during the twelve months ended October 2016. Our total outstanding repurchase requests were $246 million as of June 30, 2017, compared with $303 million as of December 31, 2016.

Representation and Warranty Relief

We implemented a revised representation and warranty framework in 2013 to provide lenders with a higher degree of certainty and clarity regarding their exposure to repurchase requests on future deliveries, as well as greater consistency around repurchase timelines and remedies. This framework was further revised in 2014. Under the framework, lenders are relieved of certain repurchase liabilities for loans that meet specific requirements. In addition, through our Day 1 Certainty™ initiative we have developed new tools that enable lenders to obtain relief from certain representations and warranties at an earlier date than provided for under the framework. For information on our representation and warranty framework and our Day 1 Certainty initiative, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Representation and Warranty Relief" in our 2016 Form 10-K.

As of June 30, 2017, approximately 52% of the outstanding loans in our single-family conventional guaranty book of business were acquired after January 1, 2013 and are subject to the revised representation and warranty framework, compared with 48% as of December 31, 2016. Table 16 below displays information regarding the relief status of single-family conventional loans, based only on payment history or the satisfactory conclusion of a full-file quality control review, delivered to us beginning in 2013 under the revised representation and warranty framework.

Table 16: Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2017

	As of June 30, 2017					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$167,505	1,218,471	$395,852	2,146,402	$563,357	3,364,873
Remain eligible for relief	22,349	147,011	1,129,173	5,246,803	1,151,522	5,393,814
Are not eligible for relief	4,446	29,764	15,841	85,246	20,287	115,010
Total outstanding loans acquired since January 1, 2013	$194,300	1,395,246	$1,540,866	7,478,451	$1,735,166	8,873,697

As of June 30, 2017, approximately 38% of loans acquired under the revised representation and warranty framework had obtained relief, compared with 37% as of December 31, 2016. Providing lenders with relief from repurchasing loans for breaches of certain representations and warranties on loans that meet specified eligibility requirements shifts some of the risk of non-compliance with our requirements back to us. However, we believe that we have taken appropriate steps to mitigate this risk, including moving the primary focus and timing of our quality control reviews to shortly after loan delivery. We also retain the right to review all loans, including reviews for any violations of "life of

loan” representations and warranties.

Transfer of Mortgage Credit Risk: Single-Family Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer portions of our single-family mortgage credit risk to the private market. The goal of these transactions is, to the extent economically sensible, to transfer a portion of the existing mortgage credit risk on a portion of recently acquired loans in our single-family guaranty book of business in order to reduce the economic risk to us and to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through our CAS and CIRT transactions. In these transactions, we transfer to investors a portion of the mortgage credit risk associated with losses on a reference pool of mortgage loans and in exchange we pay investors a premium that effectively reduces the guaranty fee income we retain on the loans. We enter into other types of credit risk transfer transactions in addition to our CAS and CIRT transactions, including lender risk-sharing transactions. For information on our credit risk transfer transactions, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions" in our 2016 Form 10-K.

As of June 30, 2017, $798 billion in outstanding unpaid principal balance of our single-family loans, or 28% of the loans in our single-family conventional guaranty book of business measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction. During the first half of 2017, pursuant to our credit risk transfer transactions, we transferred a portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of $180 billion at the time of the transactions. Our CAS and CIRT transactions are our primary credit risk transfer transactions. In the first half of 2017, we paid $364 million on our outstanding CAS debt for the spread over LIBOR at the time of issuance of the debt and $84 million in CIRT premiums, compared with $231 million on CAS debt and $46 million in CIRT premiums in the first half of 2016. These amounts increased from the first half of 2016 to the first half of 2017 as we continue to transfer credit risk on a larger portion of our single-family book of business.

We generally include approximately half of our recent single-family acquisitions in credit risk transfer transactions, as we target only certain types of loan categories for these transactions. Loan categories we have targeted for credit risk transfer transactions generally consist of fixed-rate 30-year single-family conventional loans that meet certain credit performance characteristics, are non-Refi Plus and have LTV ratios between 60% and 97%. The portion of our single-family loan acquisitions we include in credit risk transfer transactions can vary from period to period based on market conditions and other factors.

Table 17 displays the mortgage credit risk transferred to third parties and retained by Fannie Mae at the time of issuance and the outstanding reference pool balances as of June 30, 2017 pursuant to our single-family credit risk transfer transactions.

Table 17: Single-Family Credit Risk Transfer Transactions

Issuances from Inception to June 30, 2017

(Dollars in billions)

Senior	Fannie Mae[1] $1,000				
Mezzanine	Fannie Mae[1] $1	CIRT[2][3] $4	CAS[2] $24	Lender Risk-Sharing[2] *	Initial Reference Pool[4] $1,036
First Loss	Fannie Mae[1] $5		CAS[2][5] $1	Lender Risk-Sharing[2] $1	

Outstanding as of June 30, 2017
(Dollars in billions)

Senior	Fannie Mae[1] $767				
Mezzanine	Fannie Mae[1] $1	CIRT[2][3] $4	CAS[2] $19	Lender Risk-Sharing[2] *	Outstanding Reference Pool[4][6] $798
First Loss	Fannie Mae[1] $5		CAS[2][5] $1	Lender Risk-Sharing[2] $1	

____
*Represents less than $500 million.
(1) Credit risk retained by Fannie Mae in CAS, CIRT and lender risk-sharing transactions. Tranche sizes vary across programs.
(2) Credit risk transferred to third parties. Tranche sizes vary across programs.
(3) Includes mortgage pool insurance transactions covering loans with an unpaid principal balance of approximately $7 billion at issuance and approximately $4 billion outstanding as of June 30, 2017.
(4) For CIRT and some lender risk-sharing transactions, "reference pool" reflects a pool of covered loans.
(5) For CAS transactions, "First Loss" represents all B tranche balances.
(6) For CAS and some lender risk-sharing transactions, represents outstanding reference pools, not the outstanding unpaid principal balance of the underlying loans, as of June 30, 2017.

As shown in the outstanding balances in Table 17 above, we have designed our credit risk transfer transactions so that prepayment activity typically has a more substantial impact on the senior tranches retained by Fannie Mae than on the risk transferred to third parties. Principal payments on the underlying reference pool are first allocated between the senior tranches and then applied sequentially to the subordinate tranches. Losses are applied in reverse sequential order starting with the first loss tranche. For CAS transactions, all principal payments and losses are allocated pro rata between the sold notes and the portion we retain. The decreases in outstanding balances from issuance to June 30, 2017 in the senior and mezzanine tranches are the result of paydowns. Outstanding balances from issuance to June 30, 2017 in the first loss tranches decreased only slightly as the losses allocated to those tranches were insignificant.

While these deals are expected to mitigate some of our potential future credit losses, they are not designed to shield us from all losses. We retain a portion of the risk of future credit losses on loans covered by CAS and CIRT transactions, including all or at least half of the first loss positions and all of the senior loss positions. In addition, on our CAS transactions, we retain a pro rata share of risk equal to approximately 5% of all notes sold. When structuring these transactions, we seek to optimize benefit to cost considerations by taking into account a number of factors, including the level of investor demand, liquidity and pricing levels, and the amount of risk reduction provided assuming various economic scenarios. Due to differences in accounting, there also could be a significant lag between the time when we recognize a provision for credit losses and when we recognize the related recovery from our CAS transactions. See "Risk Factors" in our 2016 Form 10-K for a discussion of factors that may limit our ability to use credit risk transfer transactions to mitigate some of our potential future credit losses, including factors that may result in these transactions providing less protection than we expect.

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

investors, as well as certain other investors, and limiting investor exposure to Fannie Mae counterparty risk.

Single-Family Portfolio Diversification and Monitoring

Overview

Diversification within our single-family mortgage credit book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, in conjunction with housing market and economic conditions, to determine if our pricing, eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee. In some cases, we may decide to significantly reduce our participation in riskier loan product categories. We also review the payment performance of loans in order to help identify potential problem loans early in the delinquency cycle and to guide the development of our loss mitigation strategies. For information on key loan attributes, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2016 Form 10-K.

Credit Risk Profile of Our Single-Family Acquisitions and Book of Business

We initiated underwriting and eligibility changes that became effective for deliveries in late 2008 and 2009 and that focused on strengthening our underwriting and eligibility standards to promote sustainable homeownership. The result of many of these changes is reflected in the substantially improved credit risk profile of our single-family loan acquisitions since 2009.

Table 18 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business by acquisition period.

Table 18: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period

	As of June 30, 2017							
	% of Single-Family Conventional Guaranty Book of Business[1]		Current Estimated Mark-to-Market LTV Ratio[2]		Current Estimated Mark-to-Market LTV Ratio>100%[3]		Serious Delinquency Rate	
2009-2017 acquisitions, excluding HARP and other Refi Plus loans	75	%	57	%	*	%	0.22	%
HARP loans[4]	8		72		7		1.06	
Other Refi Plus loans[5]	6		43		*		0.41	
2005-2008 acquisitions	7		69		10		5.57	
2004 and prior acquisitions	4		41		1		2.65	
Total single-family conventional guaranty book of business	100	%	58	%	1	%	1.01	%

* Represents less than 0.5%.

(1) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of June 30, 2017.

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

(3) The current estimated mark-to-market LTV ratio greater than 100% is based on the unpaid principal balance of the loans with mark-to-market LTV ratios greater than 100% for each category as of the end of the period divided by

the aggregate unpaid principal balance of loans for each category in our single-family conventional guaranty book of business as of June 30, 2017.

(4) HARP loans, which we began to acquire in 2009, have LTV ratios at origination in excess of 80%. Some borrowers for HARP loans may have lower FICO credit scores and may provide less documentation than we would otherwise require. As of June 30, 2017, HARP loans had a weighted average FICO credit score at origination of 726 compared with 745 for loans in our single-family book of business overall.

(5) Other Refi Plus loans, which we began to acquire in 2009, includes all other Refi Plus loans that are not HARP loans.

Table 19 displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 19: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume at Acquisition[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4]	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		As of	
	2017	2016	2017	2016	June 30, 2017	December 31, 2016
Original LTV ratio:[5]						
<= 60%	17 %	19 %	19 %	19 %	21 %	21 %
60.01% to 70%	12	14	13	14	14	14
70.01% to 80%	39	39	39	39	38	38
80.01% to 90%	13	12	12	12	11	11
90.01% to 100%	19	16	17	16	13	12
Greater than 100%	*	*	*	*	3	4
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	76 %	75 %	75 %	75 %	75 %	75 %
Average loan amount	$225,194	$230,416	$223,305	$225,443	$164,659	$163,200
Estimated mark-to-market LTV ratio:[6]						
<= 60%					53 %	49 %
60.01% to 70%					19	19
70.01% to 80%					16	17
80.01% to 90%					8	9
90.01% to 100%					3	4
Greater than 100%					1	2
Total					100 %	100 %
Weighted-average					58 %	60 %
Product type:						
Fixed-rate:[7]						
Long-term	84 %	82 %	82 %	81 %	79 %	77 %
Intermediate-term	13	17	15	17	16	17
Interest-only	—	—	—	—	*	*
Total fixed-rate	97	99	97	98	95	94
Adjustable-rate:						
Interest-only	—	—	—	—	1	1
Other ARMs	3	1	3	2	4	5
Total adjustable-rate	3	1	3	2	5	6
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	97 %	98 %	97 %	98 %	97 %	97 %
2-4 units	3	2	3	2	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %

MD&A | Business Segments

	Percent of Single-Family Conventional Business Volume at Acquisition[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,			
	2017	2016	2017	2016	June 30, 2017	December 31, 2016
Property type:						
Single-family homes	90 %	90 %	90 %	90 %	91 %	91 %
Condo/Co-op	10	10	10	10	9	9
Total	100 %	100 %	100 %	100 %	100 %	100 %
Occupancy type:						
Primary residence	88 %	90 %	89 %	90 %	88 %	88 %
Second/vacation home	5	4	4	4	4	4
Investor	7	6	7	6	8	8
Total	100 %	100 %	100 %	100 %	100 %	100 %
FICO credit score at origination:						
< 620[8]	* %	* %	* %	* %	2 %	2 %
620 to < 660	5	4	5	5	5	5
660 to < 700	13	12	13	13	12	12
700 to < 740	23	21	23	21	20	20
>= 740	59	63	59	61	61	61
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	745	749	745	747	745	745
Loan purpose:						
Purchase	61 %	47 %	53 %	47 %	37 %	35 %
Cash-out refinance	20	18	22	19	20	20
Other refinance	19	35	25	34	43	45
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[9]						
Midwest	14 %	14 %	14 %	14 %	15 %	15 %
Northeast	13	13	14	13	18	18
Southeast	24	21	23	21	22	22
Southwest	21	20	20	20	17	17
West	28	32	29	32	28	28
Total	100 %	100 %	100 %	100 %	100 %	100 %

---

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

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

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

(3) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of the

end of each period.

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 6% of our single-family conventional guaranty book of business as of June 30, 2017 and December 31, 2016. See “Business—Legislation and Regulation—Charter Act” and “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring—Jumbo-Conforming and High-Balance Loans” in our 2016 Form 10-K for information on our loan limits.

(5) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

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

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

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

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

Our acquisitions in the first half of 2017 continued to have a strong credit profile with a weighted average original LTV ratio of 75% and a weighted average FICO credit score at origination of 745. As shown in the table above, the first half of 2017 had a higher proportion of acquisitions consisting of home purchase loans than refinance loans compared with the first half of 2016. The shift toward home purchase loans drove up the proportion of our acquisitions consisting of loans with a weighted average original LTV ratio over 90%, as home purchase loans tend to have less equity than refinance loans. Additionally, lower refinancing activity led to a lower weighted average FICO credit score at origination during the first half of 2017.

The credit profile of our future acquisitions will depend on many factors. For example, if a higher proportion of our future acquisitions consists of home purchase loans and we acquire lower volumes of refinance loans in future periods, the loans we acquire in those periods may have a higher weighted average original LTV ratio and a lower weighted average FICO credit score at origination than our acquisitions in recent periods. Other factors that may affect the credit profile of our future acquisitions include: our future guaranty fee pricing and our competitors' pricing, and any impact of that pricing on the volume and mix of loans we acquire; our future eligibility standards and those of mortgage insurers, the Federal Housing Administration and the U.S. Department of Veteran Affairs; changes in interest rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; government policy; market and competitive conditions; and the volume and characteristics of HARP and high LTV refinance loans we acquire in the future. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices. In addition, if lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit profile of our new single-family acquisitions.

In August 2016, FHFA directed us and Freddie Mac to implement a new high LTV refinance offering aimed at borrowers who are making their mortgage payments on time and whose current LTV ratio exceeds a specified amount. FHFA has informed us that they currently expect the new high LTV refinance offering will be available for borrowers whose loans were originated on or after a future date to be determined by FHFA and who meet other eligibility requirements. We continue to work with FHFA and Freddie Mac on the details regarding this offering and the timing of implementation.

See "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2016 Form 10-K for more information on the credit characteristics of loans in our guaranty book of business, including HARP and Refi Plus loans, Alt-A loans, jumbo-conforming and high-balance loans, reverse mortgages and mortgage products with rate resets.

Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a

borrower does not make required payments, or is in jeopardy of not making payments, we work with the loan servicer to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan workouts reflect our various types of home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure. When appropriate, we seek to move to foreclosure expeditiously. See "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Problem Loan Management" in our 2016 Form 10-K for a discussion of our work with mortgage servicers to implement our foreclosure prevention initiatives.

In the following section, we present statistics on our problem loans, describe efforts undertaken to manage these loans and prevent foreclosures, and provide metrics regarding the performance of our loan workout activities. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan level information.

Problem Loan Statistics

Table 20 displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business.

Table 20: Delinquency Status and Activity of Single-Family Conventional Loans

	As of June 30, 2017	December 31, 2016	June 30, 2016
Delinquency status:			
30 to 59 days delinquent	1.32%	1.51%	1.42%
60 to 89 days delinquent	0.34	0.41	0.36
Seriously delinquent ("SDQ")	1.01	1.20	1.32
Percentage of SDQ loans that have been delinquent for more than 180 days	61%	59%	68%
Percentage of SDQ loans that have been delinquent for more than two years	20	21	27

	For the Six Months Ended June 30, 2017	2016
Single-family SDQ loans (number of loans):		
Beginning balance	206,549	267,174
Additions	116,271	119,519
Removals:		
Modifications and other loan workouts	(38,515)	(40,645)
Liquidations and sales	(45,295)	(58,889)
Cured or less than 90 days delinquent	(64,860)	(61,569)
Total removals	(148,670)	(161,103)
Ending balance	174,150	225,590

Our single-family serious delinquency rate was 1.01% as of June 30, 2017, compared with 1.20% as of December 31, 2016. The decrease in our serious delinquency rate in the first half of 2017 was primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, improved loan payment performance and nonperforming loan sales.

We expect our single-family serious delinquency rate to continue to decline; however, as our single-family serious delinquency rate has already declined significantly over the past several years, we expect more modest declines in this rate in the future. Our single-family serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively affected by the length of time required to complete a foreclosure in some states. Other factors that affect our single-family serious delinquency rate include the pace of loan modifications, the timing and volume of nonperforming loan sales we make, servicer performance, and changes in home prices, unemployment levels and other macroeconomic conditions.

Certain higher-risk loan categories, such as Alt-A loans, loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages, continue to exhibit higher than average delinquency rates and/or account for a

higher share of our credit losses. Single-family loans originated in 2005 through 2008 constituted 7% of our single-family book of business as of June 30, 2017, but constituted 50% of our seriously delinquent single-family loans as of June 30, 2017 and drove 67% of our single-family credit losses in the first half of 2017. In addition, loans in certain states such as Florida, New Jersey and New York have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.

Table 21 displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

Table 21: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of June 30, 2017			December 31, 2016			June 30, 2016		
	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate
States:									
California	19 %	6 %	0.43 %	19 %	6 %	0.50 %	20 %	5 %	0.52 %
Florida	6	10	1.51	6	10	1.89	6	11	2.27
New Jersey	4	8	2.49	4	8	3.07	4	9	3.88
New York	5	10	2.21	5	10	2.65	5	11	3.03
All other states	66	66	0.94	66	66	1.11	65	64	1.16
Product type:									
Alt-A[2]	3	14	4.52	3	15	5.00	3	16	5.68
Vintages:									
2004 and prior	4	25	2.62	5	26	2.82	5	26	2.82
2005-2008	7	50	5.73	8	51	6.39	9	54	6.73
2009-2017	89	25	0.32	87	23	0.36	86	20	0.34
Estimated mark-to-market LTV ratio:									
<= 60%	53	39	0.64	49	33	0.70	49	31	0.71
60.01% to 70%	19	16	1.02	19	15	1.13	19	15	1.16
70.01% to 80%	16	15	1.16	17	16	1.31	16	15	1.45
80.01% to 90%	8	12	1.79	9	13	2.11	9	13	2.35
90.01% to 100%	3	7	2.98	4	9	2.99	4	9	3.92
Greater than 100%	1	11	10.05	2	14	10.44	3	17	10.54
Credit enhanced:[3]									
Primary MI & other[4]	19	27	1.68	18	28	2.18	19	27	2.17
Credit risk transfer[5]	28	3	0.15	22	2	0.17	22	1	0.10
Non-credit enhanced	63	72	1.03	67	70	1.16	68	72	1.28

---

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

(2) For a description of our Alt-A loan classification criteria, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring"

in our 2016 Form 10-K.

(3) The credit-enhanced categories are not mutually exclusive. A loan with primary mortgage insurance that is also covered by a credit risk transfer transaction will be included in both the “Primary MI & other” category and the “Credit risk transfer” category. As a result, the “Credit enhanced” and “Non-credit enhanced” categories do not sum to 100%. The total percentage of our single-family conventional guaranty book of business with some form of credit enhancement as of June 30, 2017 was 37%.

(4) Refers to loans included in an agreement used to reduce credit risk by requiring primary mortgage insurance, collateral,

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

(5) Refers to loans included in reference pools for credit risk transfer transactions, including loans in these transactions that are also covered by primary mortgage insurance. For Connecticut Avenue Securities and some lender risk-sharing transactions, this represents outstanding unpaid principal balance of the underlying loans on the single-family mortgage credit book, not the outstanding reference pool, as of the specified date. Loans included in our credit risk transfer transactions have all been acquired since 2012 and newer vintages typically have significantly lower delinquency rates than more seasoned loans.

Loan Workout Metrics

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

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

Table 22 displays statistics on our single-family loan workouts that were completed, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed. As of June 30, 2017, there were approximately 28,200 loans in a trial modification period. For a description of our loan workout types, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics” in our 2016 Form 10-K.

Table 22: Statistics on Single-Family Loan Workouts

	For the Six Months Ended June 30,			
	2017		2016	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)			
Home retention solutions:				
Modifications	$6,878	41,467	$7,003	42,177
Repayment plans and forbearances completed[1]	524	3,703	395	2,825
Total home retention solutions	7,402	45,170	7,398	45,002
Foreclosure alternatives:				
Short sales	881	4,280	1,214	5,887
Deeds-in-lieu of foreclosure	346	2,285	502	3,317
Total foreclosure alternatives	1,227	6,565	1,716	9,204
Total loan workouts	$8,629	51,735	$9,114	54,206
Loan workouts as a percentage of single-family guaranty book of business	0.60 %	0.60 %	0.65 %	0.63 %

(1) Repayment plans reflect only those plans associated with loans that were 60 days or more delinquent. Forbearances reflect loans that were 90 days or more delinquent.

The volume of modifications completed in the first half of 2017 decreased compared with the first half of 2016, primarily due to a decline in the number of delinquent loans in the first half of 2017 compared with the first half of 2016.

Nonperforming Loan Sales

FHFA's 2017 conservatorship scorecard includes an objective relating to reducing the number of our severely-aged delinquent loans, including through nonperforming loan sales. During the first half of 2017, we sold approximately 7,300 nonperforming loans with an aggregate unpaid principal balance of $1.3 billion. As of June 30, 2017, we had sold a total of approximately 47,300 nonperforming loans with an aggregate unpaid principal balance of $8.9 billion. We plan to complete additional nonperforming loan sales in the future.

REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 23 displays our foreclosure activity by region. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 23: Single-Family Foreclosed Properties

	For the Six Months Ended June 30,	
	2017	2016
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	38,093	57,253
Acquisitions by geographic area:[2]		
Midwest	4,712	6,978
Northeast	5,269	7,056
Southeast	6,530	9,907
Southwest	2,976	3,796
West	1,587	2,634
Total properties acquired through foreclosure[1]	21,074	30,371
Dispositions of REO	(27,796)	(41,643)
End of period inventory of single-family foreclosed properties (REO)[1]	31,371	45,981
Carrying value of single-family foreclosed properties (dollars in millions)	$3,545	$5,301
Single-family foreclosure rate[3]	0.25 %	0.35 %
REO net sales prices to unpaid principal balance[4]	75 %	74 %
Short sales net sales prices to unpaid principal balance[5]	75 %	73 %

____

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

(2) See footnote 9 to "Table 19: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

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

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

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

The continued decrease in the number of our seriously delinquent single-family loans resulted in a reduction in the number of REO acquisitions in the first half of 2017 compared with the first half of 2016.

We continue to manage our REO inventory to appropriately control costs and maximize sales proceeds. However, we are unable to market and sell a large portion of our inventory, primarily due to occupancy and state or local redemption or confirmation periods, which extends the amount of time it takes to bring our properties to a

marketable state and eventually dispose of them. This results in higher foreclosed property expenses, which include costs related to maintaining the property and ensuring that the property is vacant. As of June 30, 2017, approximately 39% of our REO properties were unable to be marketed, 23% of our REO properties were available for sale, 18% of our REO properties were pending sale settlement and 20% of our REO properties were pending appraisals and being prepared to be listed for sale.

Multifamily Business

Our Multifamily business provides mortgage market liquidity primarily for properties with five or more residential units, which may be communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities.

Multifamily Mortgage Market Conditions and Outlook

National multifamily market fundamentals, which include factors such as vacancy rates and rents, exhibited improved results during the second quarter of 2017.

- Vacancy rates. According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 5.3% as of June 30, 2017, down from 5.5% as of March 31, 2017. The national estimated multifamily vacancy rate remains below its average rate over the last 10 years.
- Rents. Estimated multifamily rents increased during the second quarter of 2017 by an estimated 1.0%. Despite the recent moderating trend, because estimated multifamily rent growth has outpaced wage growth over the past few years, multifamily rental housing affordability has declined in recent years.

Despite the increase in new multifamily supply, estimated rent growth was positive during the second quarter of 2017, likely due to job growth and new household formations.

Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 28,000 units during the second quarter of 2017, according to preliminary data from Reis, Inc., compared with approximately 24,000 units during the first quarter of 2017.

As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. According to Dodge Data & Analytics, it is estimated that there will be approximately 422,000 new multifamily units completed in 2017. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a slowdown in national net absorption rates, occupancy levels and effective rents in the second half of 2017.

Multifamily Business Metrics

Table 24: Multifamily Business Key Performance Data

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Securitization Activity/New Business				
Multifamily new business volume[1]	$12,297	$10,251	$29,676	$22,802
Multifamily units financed from new business volume	162,000	141,000	364,000	302,000
Other rental business volume[2]	$945	$—	$945	$—
Multifamily Fannie Mae MBS issuances[3]	$12,297	$10,183	$29,543	$22,734
Multifamily Fannie Mae structured securities issuances	$2,605	$2,851	$5,680	$5,584
Multifamily Fannie Mae MBS outstanding, at end of period[3]	$241,357	$201,680	$241,357	$201,680
Portfolio Data				
Multifamily retained mortgage portfolio, at end of period	$14,780	$24,568	$14,780	$24,568
Credit Guaranty Activity				
Average multifamily guaranty book of business[4]	$256,575	$222,969	$252,449	$219,786
Average charged guaranty fee rate on multifamily guaranty book of business (in basis points), at end of period	77.9	71.6	77.9	71.6
Multifamily credit loss ratio (in basis points)[5]	0.3	0.9	0.2	0.7
Multifamily serious delinquency rate, at end of period	0.04 %	0.07 %	0.04 %	0.07 %
Percentage of multifamily guaranty book of business with lender risk-sharing, at end of period	95 %	93 %	95 %	93 %

____

(1) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations), multifamily loans purchased, and credit enhancements provided during the period.

(2) Consists of a transaction backed by a pool of single-family rental properties.

(3) Excludes a transaction backed by a pool of single-family rental properties.

(4) Our multifamily guaranty book of business consists of: (a) multifamily mortgage loans of Fannie Mae; (b) multifamily mortgage loans underlying Fannie Mae MBS; and (c) other credit enhancements that we provide on multifamily mortgage assets and relating to a transaction backed by a pool of single-family rental properties. It excludes non-Fannie Mae multifamily mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(5) Calculated based on Multifamily segment credit losses divided by the average multifamily guaranty book of business.

FHFA's 2017 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below $36.5 billion excluding certain targeted affordable and underserved market business segments. Approximately 52% of Fannie Mae's multifamily new business and other rental volume of $30.6 billion for the first half of 2017 counted towards FHFA's 2017 multifamily volume cap.

10-Q

Multifamily Business Financial Results

Table 25: Multifamily Business Financial Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2017	2016	Variance	2017	2016	Variance
	(Dollars in millions)					
Net interest income	$636	$556	$ 80	$1,226	$1,080	$ 146
Fee and other income	242	96	146	415	232	183
Net revenues	878	652	226	1,641	1,312	329
Fair value gains (losses), net	(6)	12	(18)	(34)	49	(83)
Administrative expenses	(86)	(81)	(5)	(169)	(160)	(9)
Credit-related income[1]	10	3	7	5	25	(20)
Other income (expenses), net[2]	(72)	116	(188)	(157)	111	(268)
Income before federal income taxes	724	702	22	1,286	1,337	(51)
Provision for federal income taxes	(186)	(144)	(42)	(317)	(305)	(12)
Net income	$538	$558	$ (20)	$969	$1,032	$ (63)

____

[1] Consists of the benefit for credit losses and foreclosed property expense.

[2] Consists of investment gains, gains on partnership investments and other income (expenses).

Multifamily net income remained relatively flat in the second quarter and first half of 2017 compared with the second quarter and first half of 2016, respectively. Multifamily net income in the second quarter and first half of 2017 and in the second quarter and first half of 2016 was primarily driven by net interest income, fee and other income, and other income (expenses).

Net interest income in all periods presented was primarily driven by guaranty fee income, which continued to increase as our multifamily guaranty book of business grew and loans with higher guaranty fees became a larger part of our book of business, while loans with lower guaranty fees continued to liquidate.

Fee and other income in all periods presented was primarily driven by yield maintenance fees resulting from prepayment activity.

Other income in the second quarter and first half of 2016 was driven by investment gains resulting from the sale of available-for-sale securities.

Multifamily Mortgage Credit Risk Management

This section updates our discussion of multifamily mortgage credit risk management in our 2016 Form 10-K in “MD&A—Business Segments—Multifamily Business—Multifamily Mortgage Credit Risk Management.”

We exclude from the multifamily credit statistics reported below the approximately 1% of our multifamily guaranty book of business for which our loan level information is incomplete as of June 30, 2017 and December 31, 2016.

Multifamily Acquisition Policy and Underwriting Standards

Our multifamily business is responsible for pricing and managing the credit risk on multifamily mortgage loans we have purchased, on Fannie Mae MBS backed by multifamily loans (whether held in our retained mortgage portfolio or held by third parties), and on other credit enhancements provided on multifamily mortgage assets, with oversight from our Enterprise Risk Management division. Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which consists of large financial institutions and independent mortgage lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are underwritten by Fannie Mae-approved lenders and may be subject to our underwriting review prior to closing, depending on the product type, loan size, market and other factors. Loans delivered to us by DUS lenders and their affiliates represented 98% of our multifamily guaranty book of business as of June 30, 2017, and 97% of our multifamily guaranty book of business as of December 31, 2016.

We use credit enhancement arrangements, primarily lender risk-sharing, for our multifamily loans. As of June 30, 2017, 95% of the unpaid principal balance of loans in our multifamily guaranty book of business had lender risk-

sharing, compared with 94% as of December 31, 2016. Our maximum potential loss recovery from lenders under current risk-sharing agreements represented over 20% of the unpaid principal balance of our multifamily guaranty book of business as of June 30, 2017 and December 31, 2016.

Our standards for multifamily loans specify maximum original LTV ratio and minimum original debt service coverage ratio ("DSCR") values that vary based on loan characteristics. Our experience has been that original LTV ratio and DSCR values have been reliable indicators of future credit performance. At underwriting, the DSCR is evaluated based on both actual and underwritten debt service payments. The original DSCR is calculated using the underwritten debt service payments for the loan, rather than the actual debt service payments which, depending on the interest rate of the loan and loan structure, may result in a more conservative estimate of the debt service payments.

Table 26 displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

Table 26: Multifamily Guaranty Book of Business Key Risk Characteristics

	As of June 30, 2017	December 31, 2016	June 30, 2016
Weighted average original LTV ratio	67%	67 %	66 %
Original LTV ratio greater than 80%	2	2	2
Original DSCR less than or equal to 1.10	13	14	13

Multifamily Portfolio Diversification and Monitoring

Diversification within our multifamily mortgage credit book of business by geographic concentration, term to maturity, interest rate structure, borrower concentration and loan size, as well as credit enhancement coverage, are important factors that influence credit performance and help reduce our credit risk.

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the loan term at the asset and portfolio level. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 1% as of June 30, 2017, compared with approximately 2% as of December 31, 2016.

Multifamily Problem Loan Management and Foreclosure Prevention

We periodically refine our underwriting standards in response to market conditions and implement proactive portfolio management and monitoring, which are each designed to keep credit losses and delinquencies to a low level relative to our multifamily guaranty book of business. The multifamily serious delinquency rate was 0.04% as of June 30, 2017 and 0.05% as of December 31, 2016. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due.

REO Management

The number of multifamily foreclosed properties held for sale remained low at 14 properties with a carrying value of $90 million as of June 30, 2017, compared with 13 properties with a carrying value of $85 million as of December 31, 2016.

Liquidity and Capital Management

Liquidity Management

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

Our primary source of funds is proceeds from the issuance of short-term and long-term debt securities. Accordingly, our liquidity depends largely on our ability to issue unsecured debt in the capital markets. Our status as a GSE and federal government support of our business continue to be essential to maintaining our access to the unsecured debt markets. Our treasury group is responsible for implementing our liquidity and contingency planning strategies.

We hold a portfolio of highly liquid investments and maintain access to alternative sources of liquidity which are designed to provide near term availability of cash in the event that our access to the debt markets becomes limited. While our liquidity contingency planning attempts to address stressed market conditions and our status under conservatorship and Treasury arrangements, we believe that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances.

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

This section supplements and updates information regarding liquidity risk management in our 2016 Form 10-K. See "MD&A—Liquidity and Capital Management—Liquidity Management" and "Risk Factors" in our 2016 Form 10-K for additional information, including discussions of our primary sources and uses of funds, our liquidity risk management practices and liquidity contingency planning, factors that influence our debt funding activity, factors that may impact our access to or the cost of our debt funding, and factors that could adversely affect our liquidity.

Debt Funding

We fund our business primarily through the issuance of a variety 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 debt funding needs and debt funding activity may vary from quarter to quarter depending on market conditions and are influenced by anticipated liquidity needs, the size of our retained mortgage portfolio and our dividend payments to Treasury. See "Retained Mortgage Portfolio" for information about our retained mortgage portfolio and our requirement to reduce the size of our retained mortgage portfolio.

Fannie Mae Debt Funding Activity

Table 27 displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. 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. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption.

The increase in our issuances and payoffs of short-term debt during the first half of 2017 compared with the first half of 2016 was driven by increased utilization of notes with overnight maturities. The decrease in our issuances and payoffs of long-term debt during the second quarter and first half of 2017 compared with the second quarter and first half of 2016 was primarily due to decreased funding needs, as well as declines in call activity due to a higher interest rate environment.

Table 27: Activity in Debt of Fannie Mae

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$162,311	$170,072	$313,695	$276,885
Weighted-average interest rate	0.78 %	0.26 %	0.65 %	0.27 %
Long-term:[1]				
Amount	$5,914	$27,384	$19,022	$51,652
Weighted-average interest rate	2.81 %	1.61 %	2.44 %	1.74 %
Total issued:				
Amount	$168,225	$197,456	$332,717	$328,537
Weighted-average interest rate	0.85 %	0.45 %	0.75 %	0.50 %
Paid off during the period:[2]				
Short-term:				
Amount	$169,440	$169,891	$318,186	$287,320
Weighted-average interest rate	0.68 %	0.28 %	0.58 %	0.26 %
Long-term:[1]				
Amount	$23,424	$36,195	$39,296	$65,447
Weighted-average interest rate	4.52 %	1.98 %	3.59 %	2.09 %
Total paid off:				
Amount	$192,864	$206,086	$357,482	$352,767
Weighted-average interest rate	1.14 %	0.58 %	0.91 %	0.60 %

____

(1) Includes credit risk-sharing securities issued under our CAS series. For additional information on our credit risk transfer transactions, see "Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk: Single-Family Credit Risk Transfer Transactions."

(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. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Intraday Line of Credit

We use a secured intraday funding line of credit provided by a large financial institution. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As this line of credit is an uncommitted intraday loan facility, we may be unable to draw on it if and when needed. The line of credit under

---

this facility was $15.0 billion as of June 30, 2017 and 2016. We had no borrowings outstanding under this line of credit as of June 30, 2017.

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts. Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year.

Our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt, was 10% as of June 30, 2017 and 11% as of December 31, 2016. The weighted-average interest rate on our long-term debt, based on its original contractual maturity, decreased to 2.20% as of June 30, 2017 from 2.31% as of December 31, 2016.

Our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 31% as of June 30, 2017 and 32% as of December 31, 2016. The weighted-average maturity of our outstanding debt that is maturing within one year was 129 days as of June 30, 2017, compared with 146 days as of December 31, 2016. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 57 months as of June 30, 2017, compared with approximately 56 months as of December 31, 2016.

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

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $407.2 billion in 2017. As of June 30, 2017, our aggregate indebtedness totaled $304.1 billion, which was $103.1 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 28 displays information on our outstanding short-term and long-term debt based on its original contractual terms.

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

	As of June 30, 2017			December 31, 2016		
	Maturities	Outstanding	Weighted-Average Interest Rate	Maturities	Outstanding	Weighted-Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase[2]	—	$7	0.25 %	—	$—	— %
Short-term debt:						
Debt of Fannie Mae	—	$30,501	0.84 %	—	$34,995	0.49 %
Debt of consolidated trusts	—	511	0.91	—	584	0.48
Total short-term debt		$31,012	0.84 %		$35,579	0.49 %
Long-term debt:						
Senior fixed:						
Benchmark notes and bonds	2017 - 2030	$137,509	1.96 %	2017 - 2030	$153,983	2.16 %
Medium-term notes[3]	2017 - 2026	82,215	1.42	2017 - 2026	82,230	1.40
Other[4]	2017 - 2038	7,926	4.82	2017 - 2038	12,800	6.74
Total senior fixed		227,650	1.87		249,013	2.14
Senior floating:						
Medium-term notes[3]	2017 - 2020	19,051	1.11	2017 - 2019	21,476	0.71
Connecticut Avenue Securities[5]	2023 - 2029	20,589	5.03	2023 - 2029	16,511	4.77
Other[6]	2020 - 2037	365	7.20	2020 - 2037	346	6.75
Total senior floating		40,005	3.14		38,333	2.48
Subordinated debentures	2019	4,870	9.93	2019	4,645	9.93
Secured borrowings[7]	2021 - 2022	94	1.60	2021 - 2022	111	1.44
Total long-term debt of Fannie Mae		272,619	2.20		292,102	2.31
Debt of consolidated trusts	2017 - 2056	2,984,036	2.78	2017 - 2056	2,934,635	2.57
Total long-term debt		$3,256,655	2.73 %		$3,226,737	2.54 %
Outstanding callable debt of Fannie Mae[8]		$79,044	2.08 %		$77,257	1.89 %

[1] Outstanding debt amounts and weighted-average interest rates reported in this table include the effects of discounts, premiums and other cost basis adjustments. Reported outstanding amounts include fair value gains and

losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $1.0 billion and $1.8 billion as of June 30, 2017 and December 31, 2016, respectively.

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

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

(4) Includes other long-term debt with an original contractual maturity of greater than 10 years and foreign exchange bonds.

(5) Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans in our single-family guaranty book of business to the investors in these securities, a portion of which is reported at fair value. For additional information on our credit risk transfer transactions, see "Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk: Single-Family Credit Risk Transfer Transactions."

(6) Consists of structured debt instruments that are reported at fair value.

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

(8) Consists of the unpaid principal balance of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option at any time on or after a specified date.

Cash and Other Investments Portfolio

Table 29 displays information on the composition of our cash and other investments portfolio. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, liquidity in the fixed income markets and our liquidity risk management framework and practices. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio" in our 2016 Form 10-K for additional information on the risks associated with the assets in our cash and other investments portfolio.

Table 29: Cash and Other Investments Portfolio

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Cash and cash equivalents	$16,904	$ 25,224
Federal funds sold and securities purchased under agreements to resell or similar arrangements	29,220	30,415
U.S. Treasury securities	32,418	32,317
Total cash and other investments	$78,542	$ 87,956

Cash Flows

Six Months Ended June 30, 2017. Cash and cash equivalents decreased by $8.3 billion from $25.2 billion as of December 31, 2016 to $16.9 billion as of June 30, 2017. The decrease was primarily driven by cash outflows from (1) the purchase of Fannie Mae MBS from third parties, (2) the redemption of funding debt, which outpaced issuances, due to lower funding needs, and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

Partially offsetting these cash outflows were cash inflows from (1) the sale of Fannie MBS to third parties and (2) proceeds from repayments and sales of loans of Fannie Mae.

Six Months Ended June 30, 2016. Cash and cash equivalents increased by $8.9 billion from $14.7 billion as of December 31, 2015 to $23.6 billion as of June 30, 2016. The increase was primarily driven by cash inflows from (1) the sale of Fannie MBS to third parties, (2) proceeds from the repayments and sales of loans of Fannie Mae and (3) proceeds from the sale and liquidation of mortgage-related securities.

Partially offsetting these cash inflows were cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the acquisition of delinquent loans out of MBS trusts and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

Credit Ratings

As of June 30, 2017, our credit ratings have not changed since we filed our 2016 Form 10-K. For additional information on our credit ratings, see "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings" in our 2016 Form 10-K.

Capital Management

Regulatory Capital

FHFA stated that, during conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and FHFA will not issue quarterly capital classifications. The deficit of our core capital over statutory minimum capital was $137.9 billion as of June 30, 2017 and $136.2 billion as of December 31, 2016. For

more information on our minimum capital requirements, see “Note 14, Regulatory Capital Requirements” in our 2016 Form 10-K.

Capital Activity

Each quarter during the conservatorship, the Director of FHFA has directed us to make dividend payments to Treasury. Our second quarter 2017 dividend of $2.8 billion was declared by FHFA and subsequently paid by us on June 30, 2017.

The terms of our senior preferred stock provide for quarterly dividends to accumulate at a rate equal to our net worth less an applicable capital reserve amount. The capital reserve amount is $600 million for dividend periods in 2017, and will be reduced to zero on January 1, 2018. We will pay Treasury a dividend for the third quarter of 2017 of $3.1 billion by September 30, 2017 if our conservator declares a dividend in this amount before September 30, 2017. To the extent that these quarterly dividends are not paid, they will accumulate and be added to the liquidation preference of the senior preferred stock. This would not affect the amount of available funding from Treasury under the senior preferred stock purchase agreement.

We are effectively unable to raise equity capital from private sources at this time and, therefore, are reliant on the funding available under our senior preferred stock purchase agreement with Treasury to address any net worth deficit. Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficiencies in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of June 30, 2017. The current aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remains at $117.1 billion. Dividend payments we make to Treasury do not reduce the outstanding liquidation preference of the senior preferred stock, although we are permitted to pay down the liquidation preference of the senior preferred stock to the extent of any accumulated and unpaid dividends previously added to the liquidation preference and not previously paid down.

While we had a positive net worth as of June 30, 2017 and have not received funds from Treasury under the agreement since the first quarter of 2012, we will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement if we have a net worth deficit in future periods. As of the date of this filing, the amount of remaining available funding under the senior preferred stock purchase agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.

See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2016 Form 10-K for more information on the terms of our senior preferred stock and our senior preferred stock purchase agreement with Treasury. See "Risk Factors" in our 2016 Form 10-K for a discussion of the risks relating to our limited and declining capital reserves and the dividend provisions of the senior preferred stock.

Off-Balance Sheet Arrangements

We enter into certain business arrangements to facilitate our statutory purpose of providing liquidity to the secondary mortgage market and to reduce our exposure to interest rate fluctuations. Some of these arrangements are not recorded in our condensed consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements result primarily from: our guaranty of mortgage loan securitization and resecuritization transactions, and other guaranty commitments over which we do not have control; liquidity support transactions; and partnership interests. For a description of our off-balance sheet arrangements, see "MD&A—Off-Balance Sheet Arrangements" in our 2016 Form 10-K.

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $22.7 billion as of

June 30, 2017 and $24.3 billion as of December 31, 2016. Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $9.9 billion as of June 30, 2017 and $10.4 billion as of December 31, 2016.

Risk Management

Our business activities expose us to the following three major categories of risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We seek to actively manage and monitor these risks by using an established risk management program. We are also exposed to compliance risk, reputational risk and strategic risk, which encompasses the uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in "Risk Factors" and in "Business—Legislation and Regulation—Housing Finance Reform" in our 2016 Form 10-K.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the primary risks we face and how we manage credit risk, market risk and operational risk, see "MD&A—Risk Management" and "Risk Factors" in our 2016 Form 10-K.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk.

Mortgage Credit Risk Management

Mortgage credit risk is the risk of loss resulting from the failure of a borrower to make required mortgage payments. We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. For a discussion of our single-family mortgage credit risk management, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management" in our 2016 Form 10-K and in this report. For a discussion of our multifamily credit risk management, see "MD&A—Business Segments—Multifamily Business—Multifamily Mortgage Credit Risk Management" in our 2016 Form 10-K and in this report.

Institutional Counterparty Credit Risk Management

Institutional counterparty credit risk is the risk of loss resulting from the failure of an institutional counterparty to fulfill its contractual obligations to us. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" and "Risk Factors" in our 2016 Form 10-K for additional information about our institutional counterparty risk, including counterparty risk we face from mortgage originators, investors and dealers, from debt security dealers, from document custodians and from mortgage fraud.

Mortgage Sellers and Servicers

One of our primary exposures to institutional counterparty risk is with mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, as well as mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances. We rely on mortgage servicers to meet our servicing standards and fulfill their servicing obligations. We also rely on mortgage sellers and servicers to fulfill their repurchase obligations.

Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 40% of our single-family guaranty book of business as of June 30, 2017, compared with approximately 39% as December 31, 2016. Our largest mortgage servicer is Wells Fargo Bank, N.A., which, together with its affiliates, serviced approximately 17% of our single-family guaranty book of business as of June 30, 2017 and December 31, 2016.

Our five largest multifamily mortgage servicers, including their affiliates, serviced approximately 47% of our multifamily guaranty book of business as of June 30, 2017 and December 31, 2016. Wells Fargo Bank, N.A. and Walker & Dunlop, LLC each serviced over 10% of our multifamily guaranty book of business as of June 30, 2017 and December 31, 2016.

A large portion of our single-family guaranty book is serviced by non-depository servicers. As of June 30, 2017, 16% of our total single-family guaranty book of business, including 52% of our delinquent single-family loans, was

serviced by our five largest non-depository servicers, compared with 16% of our total single-family guaranty book of business, including 51% of our delinquent single-family loans, as of December 31, 2016. Compared with depository financial institutions, non-depository servicers pose additional risks to us because non-depository

servicers may have a greater reliance on third-party sources of liquidity and may, in the event of significant increases in delinquent loan volumes, have less financial capacity to advance funds on our behalf or satisfy repurchase requests or compensatory fee obligations. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers. See "Risk Factors" in our 2016 Form 10-K for a discussion of the risks of our reliance on servicers.

Our five largest single-family mortgage sellers, including their affiliates, accounted for approximately 34% of our single-family business acquisition volume in the first half of 2017, compared with approximately 28% in the first half of 2016. Our largest mortgage seller is Wells Fargo Bank, N.A., which, together with its affiliates, accounted for approximately 16% of our single-family business acquisition volume in the first half of 2017, compared with approximately 13% in the first half of 2016.

We acquire a portion of our business volume directly from non-depository and smaller depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting eligibility breach.

Credit Guarantors

We use various types of credit guarantors to manage our mortgage credit risk, including mortgage insurers, credit insurance risk transfer counterparties, financial guarantors, and multifamily lenders with risk sharing.

Mortgage Insurers

We are generally required, pursuant to our charter, to obtain credit enhancements on single-family conventional mortgage loans that we purchase or securitize with LTV ratios over 80% at the time of purchase. We use several types of credit enhancements to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 30 displays our risk in force for mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties, excluding insurance coverage provided by federal government entities and credit insurance obtained through CIRT deals. The table includes our top nine mortgage insurer counterparties, which provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of June 30, 2017 and December 31, 2016. In addition, for our mortgage insurer counterparties not approved to write new business, we have provided the percentage of their claims payments the counterparties are currently deferring based on the direction of their state regulators, referred to as their deferred payment obligation. As of June 30, 2017 and December 31, 2016, less than 1% of our total risk in force mortgage insurance coverage was pool insurance. In addition, approximately 1% of our total insurance in force mortgage insurance coverage was pool insurance as of June 30, 2017 and December 31, 2016.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we expect to receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. The amount by which our estimated benefit from mortgage insurance reduced our total combined loss reserves was $1.1 billion as of June 30, 2017 and $1.4 billion as of December 31, 2016.

Table 30: Mortgage Insurance Coverage

	Risk in Force[1]		Insurance in Force[2]		
	As of		As of		Deferred
	June 30,	December 31,	June 30,	December 31,	Payment
	2017	2016	2017	2016	Obligation %[3]
	(Dollars in millions)				
Counterparty:[4]					
Approved:[5]					
Arch Capital Group Ltd.:[6]					
United Guaranty Residential Insurance Co.	$26,473	$27,161	$101,490	$104,418	
Arch Mortgage Insurance Co.	7,738	6,059	30,596	23,998	
Total Arch Capital Group Ltd.	34,211	33,220	132,086	128,416	
Radian Guaranty, Inc.	27,054	25,866	105,103	100,626	
Mortgage Guaranty Insurance Corp.	25,304	24,662	98,131	95,431	
Genworth Mortgage Insurance Corp.	19,334	18,573	76,100	73,075	
Essent Guaranty, Inc.	12,843	11,213	51,557	45,053	
National Mortgage Insurance Corp.	5,312	4,388	24,678	21,209	
Others	298	282	1,822	1,724	
Total approved	124,356	118,204	489,477	465,534	
Not approved:[5]					
PMI Mortgage Insurance Co.[7]	3,375	3,790	13,465	15,112	28.5 %
Republic Mortgage Insurance Co.[7]	2,756	3,104	10,689	12,043	—
Triad Guaranty Insurance Corp.[7]	994	1,106	3,569	3,975	25.0 %
Others	10	11	32	34	
Total not approved	7,135	8,011	27,755	31,164	
Total	$131,491	$126,215	$517,232	$496,698	
Total as a percentage of single-family guaranty book of business	5 %	4 %	18 %	17 %	

____

(1) Risk in force is generally the maximum potential loss recovery under the applicable mortgage insurance policies in force and is based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

(2) Insurance in force represents the unpaid principal balance of single-family loans in our guaranty book of business covered under the applicable mortgage insurance policies.

(3) Deferred payment obligation represents the percentage of cash payments on policyholder claims being deferred as directed by the insurer's respective regulator in its state of domicile. As of June 30, 2017, we had an aggregate unpaid issued deferred payment obligation of $934 million from PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corporation. We reserve for any unpaid amounts for which collectability is uncertain.

(4) Insurance coverage amounts provided for each counterparty may include coverage provided by affiliates and subsidiaries of the counterparty.

(5) "Approved" mortgage insurers are counterparties approved to write new insurance with us. "Not approved" mortgage insurers are counterparties that are no longer approved to write new insurance with us.

(6) In December 2016, Arch Capital Group Ltd., the ultimate parent company of Arch Mortgage Insurance Co., acquired United Guaranty Corporation. United Guaranty Corporation is the ultimate parent company of United

Guaranty Residential Insurance Co.

(7) These mortgage insurers are under various forms of supervised control by their state regulators and are in run-off.

When an insured loan held in our retained mortgage portfolio subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds, cancels or denies insurance coverage, the initial receivable becomes due from the mortgage seller or servicer. We had outstanding receivables of $926 million recorded in "Other assets" in our condensed consolidated balance sheets as of June 30, 2017 and $1.0 billion as of December 31, 2016 related to amounts

claimed on insured, defaulted loans excluding government insured loans. Of this amount, $106 million as of June 30, 2017 and $141 million as of December 31, 2016 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of $612 million as of June 30, 2017 and $638 million as of December 31, 2016. The valuation allowance reduces our claim receivable to the amount considered probable of collection as of June 30, 2017 and December 31, 2016.

Credit Insurance Risk Transfer Counterparties

In a CIRT transaction, we shift a portion of the credit risk on a reference pool of mortgage loans to credit insurers or reinsurers. As of June 30, 2017, our single-family CIRT counterparties had a maximum liability to us of $4.3 billion. A portion of these counterparties' obligation is collateralized with highly-rated liquid assets held in a trust account. As of June 30, 2017, $1.2 billion in assets securing these counterparties' obligations were held in a trust account. Our credit risk exposure to our CIRT counterparties is concentrated. Our top five single-family CIRT counterparties had a maximum liability to us of $2.7 billion (representing 62% of our total CIRT coverage) as of June 30, 2017, compared to $2.1 billion (70% of our total CIRT coverage) as of December 31, 2016. Our single-family CIRT transactions are described in "Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions" in our 2016 Form 10-K.

Multifamily Lenders with Risk Sharing

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was $58.4 billion as of June 30, 2017, compared with $54.8 billion as of December 31, 2016. As of June 30, 2017 and December 31, 2016, 43% of our maximum potential loss recovery on multifamily loans was from four DUS lenders.

As noted above in "Business Segments—Multifamily Business—Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards," our primary multifamily delivery channel is our DUS program, which is comprised of lenders that range from large depositories to independent non-bank financial institutions. As of June 30, 2017 and December 31, 2016, 35% of the unpaid principal balance of loans in our multifamily guaranty book of business serviced by our DUS lenders was from institutions with an external investment grade credit rating or a guaranty from an affiliate with an external investment grade credit rating. Given the recourse nature of the DUS program, DUS lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a highly rated custodian to secure a portion of the lenders' future obligations. We actively monitor the financial condition of these lenders to help ensure the level of risk remains within our standards and to ensure required capital levels are maintained and are in alignment with actual and modeled loss projections.

Custodial Depository Institutions

We evaluate our custodial depository institutions to determine whether they are eligible to hold deposits on our behalf based on requirements specified in our Servicing Guide. If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be exposed to risk for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository institutions could result in significant financial losses to us.

A total of $32.3 billion in deposits for single-family payments were received and held by 256 institutions during the month of June 2017 and a total of $42.3 billion in deposits for single-family payments were received and held by 258 institutions during the month of December 2016. Of these total deposits, 90% as of June 30, 2017, compared with 91% as of December 31, 2016 were held by institutions rated as investment grade by S&P Global Ratings ("S&P"), Moody's Investors Services ("Moody's") and Fitch Ratings Limited ("Fitch").

During the month of June 2017, a total of $3.4 billion in deposits for multifamily payments were received and held by 28 institutions and $3.1 billion in deposits for multifamily payments were received and held by 27 institutions during the month of December 2016. Of these total deposits, 98% as of June 30, 2017 and December 31, 2016 were held by institutions rated as investment grade by S&P, Moody's and Fitch.

Our transactions with custodial depository institutions are concentrated. Our six largest single-family custodial depository institutions held 79% of these deposits as of June 30, 2017, compared with 80% as of December 31, 2016. Our six largest multifamily custodial depository institutions held 88% of these deposits as of June 30, 2017, compared with 91% as of December 31, 2016.

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. Historically, our risk management derivative transactions have been made pursuant to bilateral contracts with a specific counterparty governed by the terms of an International Swaps and Derivatives Association Inc. master agreement. Pursuant to regulations implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are required to submit certain categories of new interest rate swaps to a derivatives clearing organization. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter (“OTC”) derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions.

We manage our derivative counterparty credit exposure relating to our OTC derivative transactions through enforceable master netting arrangements. These arrangements allow us to net derivative assets and liabilities with the same counterparty. We also manage our derivative counterparty exposure relating to our OTC derivative transactions by requiring counterparties to post collateral, which may include cash, U.S. Treasury securities, agency debt and agency mortgage-related securities. Regulations that took effect March 1, 2017 require posting of variation margin without the application of any thresholds for OTC derivative transactions executed after that date.

Our cleared derivative transactions are submitted to derivatives clearing organizations on our behalf through clearing members of the organizations. A contract accepted by a derivatives clearing organization is governed by the terms of the clearing organization’s rules and arrangements between us and the clearing member of the clearing organization. As a result, we are exposed to the institutional credit risk of both the derivatives clearing organizations and the members who are acting on our behalf. We manage our credit exposure relating to our cleared derivative transactions through enforceable master netting arrangements. These arrangements allow us to net our exposure to cleared derivatives by clearing organization and by clearing member.

We will continue to have credit risk exposure to derivatives clearing organizations and certain of their members in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position at the counterparty level where the right of legal offset exists.

The fair value of derivatives in a gain position is included in our condensed consolidated balance sheets in “Other assets.” Total exposure represents our exposure to credit loss on derivative instruments less the cash and non-cash collateral posted by our counterparties to us. This does not include collateral held in excess of exposure. Our total exposure was $24 million as of June 30, 2017 and $54 million as of December 31, 2016. The majority of our total exposure as of each date consisted of credit risk transfer transactions and mortgage insurance contracts that we account for as derivatives.

As of June 30, 2017, we had thirteen counterparties with which we may transact OTC derivative transactions, all of which were subject to enforceable master netting arrangements, compared with sixteen counterparties as of December 31, 2016. We had outstanding notional amounts with all of these counterparties, and the highest concentration by our total outstanding notional amount was approximately 9% as of June 30, 2017 and December 31, 2016.

See “Note 8, Derivative Instruments” and “Note 13, Netting Arrangements” for additional information on our derivative contracts as of June 30, 2017 and December 31, 2016.

Market Risk Management, Including Interest Rate Risk Management

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss from adverse changes in the value of our assets or liabilities or our future earnings due to changes in interest rates. Spread risk or basis risk is the resulting

impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. We describe our sources of interest rate risk exposure, business risks posed by changes in interest rates, and our strategy for managing interest rate risk and spread risk in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management" and in "Risk Factors" in our 2016 Form 10-K.

Measurement of Interest Rate Risk

Below we present two quantitative metrics that provide estimates of our interest rate risk exposure: (1) fair value sensitivity of our net portfolio to changes in interest rate levels and slope of yield curve; and (2) duration gap. Our net portfolio consists of our retained mortgage portfolio assets; cash and other investments portfolio assets; our outstanding debt of Fannie Mae that is used to fund our retained mortgage portfolio assets and cash and other investments portfolio assets; mortgage commitments; and risk management derivatives. Risk management derivatives along with our debt instruments are used to manage interest rate risk.

The metrics presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

Interest Rate Sensitivity to Changes in Interest Rate Level and Slope of Yield Curve

Pursuant to a disclosure commitment with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from the following hypothetical situations:

- A 50 basis point shift in interest rates.
- A 25 basis point change in the slope of the yield curve.

In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve.

In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift of 16.7 basis points for the 1-year rate and 8.3 basis points for the 30-year rate. We believe these interest rate shocks represent moderate movements in interest rates over a one-month period.

Duration Gap

Duration gap measures the price sensitivity of our assets and liabilities in our net portfolio to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap analysis reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest rate scenarios to those of our liabilities. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities. We disclose duration gap on a monthly basis under the caption "Interest Rate Risk Disclosures" in our Monthly Summary, which is available on our website and announced in a press release.

While our goal is to reduce the price sensitivity of our net portfolio to movements in interest rates, various factors can contribute to a duration gap that is either positive or negative. For example, changes in the market environment can increase or decrease the price sensitivity of our mortgage assets relative to the price sensitivity of our liabilities because of prepayment uncertainty associated with our assets. In a declining interest rate environment, prepayment rates tend to accelerate, thereby shortening the duration and average life of the fixed rate mortgage assets we hold in our net portfolio. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets. Our debt and derivative instrument positions are used to manage the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities. As a result,

the degree to which the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities is offset will depend on, among other factors, the mix of funding and other risk management derivative instruments we use at any given point in time.

The market value sensitivities of our net portfolio are a function of both the duration and the convexity of our net portfolio. Duration provides a measure of the price sensitivity of a financial instrument to changes in interest rates while convexity reflects the degree to which the duration of the assets and liabilities in our net portfolio changes in response to a given change in interest rates. We use convexity measures to provide us with information about how quickly and by how much our net portfolio's duration may change in different interest rate environments. The market value sensitivity of our net portfolio will depend on a number of factors, including the interest rate environment, modeling assumptions and the composition of assets and liabilities in our net portfolio, which vary over time.

Results of Interest Rate Sensitivity Measures

The interest rate risk measures discussed below exclude the impact of changes in the fair value of our guaranty assets and liabilities resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments.

Table 31 displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. Table 31 also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended June 30, 2017 and 2016.

The sensitivity measures displayed in Table 31, which we disclose on a quarterly basis pursuant to a disclosure commitment with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of positive or negative 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

Table 31: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve

	As of	
	June 30, 2017[1][2]	December 31, 2016[1][2]
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$(0.1)	$(0.2)
-50 basis points	0.0	0.0
+50 basis points	0.0	0.0
+100 basis points	(0.1)	0.0
Rate slope shock:		
-25 basis points (flattening)	0.0	0.0
+25 basis points (steepening)	0.0	0.0

	For the Three Months Ended June 30,[1][3]					
	2017			2016		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
	(In months)	Exposure (Dollars in billions)		(In months)	Exposure (Dollars in billions)	
Average	(0.1)	$0.0	$0.0	0.2	$0.1	$0.0
Minimum	(0.5)	0.0	0.0	(0.3)	0.0	0.0
Maximum	0.7	0.1	0.1	1.0	0.1	0.1
Standard deviation	0.3	0.0	0.0	0.3	0.0	0.0

(1) Computed based on changes in LIBOR interest rates swap curve.
(2) Measured on the last day of each period presented.
(3) Computed based on daily values during the period presented.

The market value sensitivity of our net portfolio varies across a range of interest rate shocks depending upon the duration and convexity profile of our net portfolio. Because the effective duration gap of our net portfolio was close to zero months in the periods presented, the convexity exposure was the primary driver of the market value sensitivity of our net portfolio as of June 30, 2017. In addition, the convexity exposure may result in similar market value sensitivities for positive and negative interest rate shocks of the same magnitude.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which include callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 32 displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

Table 32: Derivative Impact on Interest Rate Risk (50 Basis Points)

	As of[1]	
	June 30, 2017	December 31, 2016
	(Dollars in billions)	
Before derivatives	$ (0.8)	$ (1.0)
After derivatives	0.0	0.0
Effect of derivatives	0.8	1.0

____

(1) Measured on the last day of each period presented.

Liquidity Risk Management

See “MD&A—Liquidity and Capital Management—Liquidity Management” in our 2016 Form 10-K and in this report for a discussion of how we manage liquidity risk.

Operational Risk Management

See “MD&A—Risk Management—Operational Risk Management” in our 2016 Form 10-K for information on operational risks that we face and our framework for managing operational risk.

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” in this report and in our 2016 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” in our 2016 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified two of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition: fair value measurement and combined loss reserves.

See “MD&A—Critical Accounting Policies and Estimates” in our 2016 Form 10-K for a discussion of these critical accounting policies and estimates.

Impact of Future Adoption of New Accounting Guidance

We identify and discuss the expected impact on our condensed consolidated financial statements of recently issued accounting guidance in “Note 1, Summary of Significant Accounting Policies.”

Forward-Looking Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “forecast,” “project,” “woul “could,” “likely,” “may,” “will” or similar words. Examples of forward-looking statements in this report include, but are not limited to, statements relating to our expectations regarding the following matters:

- our profitability and financial results, and the factors that will affect our profitability and financial results;
- our revenues and the factors that will affect our revenues;
- the composition, quality and size of our retained mortgage portfolio;
- our business plans and strategies and the impact of such plans and strategies;

- our capital reserves and our dividend payments to Treasury;
- our payments to HUD and Treasury funds under the GSE Act;

- the impact of legislation, regulation and accounting guidance on our business or financial results, including the impact of corporate income tax legislation and impairment accounting guidance;
- housing and mortgage market conditions (including home price appreciation rates, mortgage origination volumes, changes in interest rates and changes in mortgage spreads) and the impact of such conditions on our financial results;
- the risks to our business;
- our credit losses and loss reserves;
- our serious delinquency rate and foreclosures;
- our engagement in credit risk transfer transactions and the effects of those transactions;
- factors that will affect or mitigate our credit risk exposure;
- the characteristics and performance of the loans in our book of business and factors that will affect their characteristics and performance;
- our single-family loan acquisitions and the credit risk profile of such acquisitions;
- factors that will affect our liquidity and ability to meet our debt obligations and factors relating to our liquidity contingency plans; and
- our response to legal and regulatory proceedings and their impact on our business or financial condition.

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

There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation or corporate income tax reform legislation; actions by FHFA, Treasury, HUD or other regulators that affect our business; the timing and level of, as well as regional variation in, home price changes; changes in interest rates, including negative interest rates; changes in unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues; the size, composition and quality of our guaranty book of business and retained mortgage portfolio; our market share; the life of the loans in our guaranty book of business; challenges we face in retaining and hiring qualified executives and other employees; our future serious delinquency rates; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of the Single Security Initiative for Fannie Mae and Freddie Mac; limitations on our business imposed by FHFA, in its role as our conservator or as our regulator; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board ("FASB"); future changes to our accounting policies; changes in the fair value of our assets and liabilities; operational control weaknesses; our reliance on models; future

updates to our models, including the assumptions used by these models; the level and volatility of interest rates and credit spreads; changes in the fiscal and monetary policies of the Federal Reserve, including implementation of the Federal Reserve's balance sheet normalization program; changes in the structure and

regulation of the financial services industry; credit availability; global political risks; natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches or threats; and those factors described in “Risk Factors” in this report and in our 2016 Form 10-K.

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in “Risk Factors” in this report and in our 2016 Form 10-K. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Financial Statements | Condensed Consolidated Balance Sheets

Item 1. Financial Statements
FANNIE MAE
(In conservatorship)
Condensed Consolidated Balance Sheets — (Unaudited)
(Dollars in millions, except share amounts)

	As of June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$16,904	$25,224
Restricted cash (includes $26,279 and $31,536, related to consolidated trusts)	30,999	36,953
Federal funds sold and securities purchased under agreements to resell or similar arrangements	29,220	30,415
Investments in securities:		
Trading, at fair value (includes $1,007 and $1,277, respectively, pledged as collateral)	39,274	40,562
Available-for-sale, at fair value (includes $98 and $107, respectively, related to consolidated trusts)	6,408	8,363
Total investments in securities	45,682	48,925
Mortgage loans:		
Loans held for sale, at lower of cost or fair value	5,322	2,899
Loans held for investment, at amortized cost:		
Of Fannie Mae	180,318	204,318
Of consolidated trusts	2,960,174	2,896,001
Total loans held for investment (includes $11,406 and $12,057, respectively, at fair value)	3,140,492	3,100,319
Allowance for loan losses	(20,399)	(23,465)
Total loans held for investment, net of allowance	3,120,093	3,076,854
Total mortgage loans	3,125,415	3,079,753
Deferred tax assets, net	31,402	33,530
Accrued interest receivable (includes $7,223 and $7,064, respectively, related to consolidated trusts)	7,840	7,737
Acquired property, net	3,696	4,489
Other assets	18,072	20,942
Total assets	$3,309,230	$3,287,968
LIABILITIES AND EQUITY		
Liabilities:		
Accrued interest payable (includes $8,389 and $8,285, respectively, related to consolidated trusts)	$9,473	$9,431