FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
November 08, 2011

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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 September 30, 2011**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File No.: 0-50231

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

Fannie Mae

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

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

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

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

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

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

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

As of September 30, 2011, there were 1,158,227,237 shares of common stock of the registrant outstanding.

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MD&A TABLE REFERENCE

PART I FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency (FHFA) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury (Treasury), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K) in Business Conservatorship and Treasury Agreements.

You should read this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2010 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 these forward-looking statements due to a variety of factors including, but not limited to, those described in Risk Factors and elsewhere in this report and in Risk Factors in our 2010 Form 10-K.

You can find a Glossary of Terms Used in This Report in the MD&A of our 2010 Form 10-K.

INTRODUCTION

Fannie Mae is a government-sponsored enterprise (GSE) that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Our charter does not permit us to originate loans or lend money directly to consumers in the primary mortgage market. Our most significant activity is 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 for our mortgage portfolio. We use the term acquire in this report to refer to both our guarantees and our purchases of mortgage loans. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets.

We are a corporation chartered by the U.S. Congress. Our conservator is a U.S. government agency. Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and Treasury has made a commitment under a senior preferred stock purchase agreement to provide us with funds under specified conditions to maintain a positive net worth. The U.S. government does not guarantee our securities or other obligations.

Our common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange on July 8, 2010 and since then has been 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.

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EXECUTIVE SUMMARY

In the first nine months of 2011, we continued our work to provide liquidity and support to the mortgage market, grow the strong new book of business we have been acquiring since January 1, 2009, and minimize losses on loans we acquired prior to 2009.

Providing Liquidity and Support to the Mortgage Market

Our Liquidity and Support Activities

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

We serve as a stable source of liquidity for purchases of homes and multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately $2.1 trillion in liquidity to the mortgage market from January 1, 2009 through September 30, 2011 through our purchases and guarantees of loans, including over 7.6 million single-family mortgage loans, which enabled borrowers to purchase homes or refinance their mortgages, and multifamily loans that financed nearly 967,000 units of multifamily housing.

We are a consistent market presence as we continue to provide liquidity to the mortgage market even when other sources of capital have exited the market, as evidenced by the events of the last few years. We estimate that we, Freddie Mac and Ginnie Mae have collectively guaranteed more than 80% of the single-family mortgages originated in the United States since January 1, 2009.

We have strengthened our underwriting and eligibility standards to support sustainable homeownership. Our support enables borrowers to have access to a variety of conforming mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage that protects homeowners from interest rate swings.

We helped more than 960,000 homeowners struggling to pay their mortgages work out their loans from January 1, 2009 through September 30, 2011, which helped to support neighborhoods, home prices and the housing market.

We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed during 2009 and 2010 were affordable to families earning at or below the median income in their area.

Borrowers typically pay a lower interest rate on loans eligible for purchase or guarantee by Fannie Mae, Freddie Mac or Ginnie Mae. Mortgage originators are generally able to offer borrowers lower mortgage rates on conforming loan products, including ours, in part because of the value investors place on GSE-guaranteed mortgage-related securities.

In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2010 Form 10-K in Business Business Segments Capital Markets.

2011 Acquisitions and Market Share

In the first nine months of 2011, we purchased or guaranteed approximately $445 billion in loans, measured by unpaid principal balance, which includes approximately $51 billion in delinquent loans we purchased from our single-family MBS trusts. These activities enabled our lender customers to finance approximately 1,826,000 single-family conventional loans and loans for approximately 289,000 units in multifamily properties during the first nine months of 2011.

We remained the largest single issuer of mortgage-related securities in the secondary market during the third quarter of 2011, with an estimated market share of new single-family mortgage-related securities issuances of 43.3%. Our estimated market share of new single-family mortgage-related securities issuances was 43.2% in the second quarter of 2011 and 44.5% in the third quarter of 2010.

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We remained a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 20% of the outstanding debt on multifamily properties as of June 30, 2011 (the latest date for which information was available).

Summary of Our Financial Performance for the Third Quarter and First Nine Months of 2011

Our financial results for the third quarter and the first nine months of 2011 reflect the continued weakness in the housing and mortgage markets, which remain under pressure from high levels of unemployment, underemployment and the prolonged decline in home prices since their peak in the third quarter of 2006. Credit-related expenses continue to be a key driver of our net losses for each period presented. Our credit-related expenses vary from period to period primarily based on changes in home prices, borrower payment behavior, the types and volumes of loss mitigation activities completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties. The decline in interest rates during the third quarter of 2011 had a significant impact on the company s derivative losses; however, these losses were mostly offset by fair value gains in the period related to our hedged mortgage investments for which only a portion are recorded at fair value in our financial statements. Derivative instruments are an integral part of how we manage interest rate risk and an inherent part of the cost of funding and hedging our mortgage investments. We expect high levels of period-to-period volatility in our results because our derivatives are recorded at fair value in our financial statements while some of the instruments they hedge are not recorded at fair value in our financial statements.

Comprehensive Loss

We recognized a total comprehensive loss of $5.3 billion in the third quarter of 2011, consisting of a net loss of $5.1 billion and other comprehensive loss of $197 million. In comparison, we recognized a total comprehensive loss of $2.9 billion in the second quarter of 2011, consisting of a net loss of $2.9 billion and other comprehensive income of $2 million. We recognized a total comprehensive loss of $429 million in the third quarter of 2010, consisting of a net loss of $1.3 billion and other comprehensive income of $902 million (other comprehensive income in the third quarter of 2010 was primarily driven by a reduction in our unrealized losses due to significantly improved fair value of available-for-sale securities).

Our total comprehensive loss for the first nine months of 2011 was $14.5 billion, consisting of a net loss of $14.4 billion and other comprehensive loss of $14 million. In comparison, we recognized a total comprehensive loss of $10.1 billion in the first nine months of 2010, consisting of a net loss of $14.1 billion and other comprehensive income of $3.9 billion (other comprehensive income in the first nine months of 2010 was primarily driven by a reduction in our unrealized losses due to significantly improved fair value of available-for-sale securities).

Net Loss

Third Quarter 2011 vs. Second Quarter 2011. The $2.2 billion increase in our net loss was primarily due to $4.5 billion in net fair value losses in the third quarter of 2011 primarily driven by losses on our risk management derivatives due to a significant decline in swap interest rates during the quarter, compared with $1.6 billion in net fair value losses in the second quarter of 2011 driven by losses on risk management derivatives. In addition, we recognized foreclosed property expense of $733 million in the third quarter of 2011 compared with foreclosed property income of $478 million in the second quarter of 2011 because our estimate of amounts due to us related to outstanding repurchase requests remained relatively flat during the third quarter compared with a substantial increase in the second quarter of 2011. These losses and expenses were partially offset by a $2.4 billion decrease in our provision for credit losses primarily driven by a lower provision on individually impaired loans as the continued lower interest rate environment improved our expected cash flow projections on those loans, therefore reducing our estimated impairment.

Third Quarter 2011 vs. Third Quarter 2010. The $3.8 billion increase in our net loss was primarily due to $4.5 billion in net fair value losses in the third quarter of 2011 primarily driven by losses on our risk management derivatives due to a significant decline in swap interest rates during the quarter, compared with

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$525 million in net fair value gains in the third quarter of 2010 primarily driven by gains on our trading securities. These losses were partially offset by a $677 million decrease in credit-related expenses which was primarily driven by a lower provision on individually impaired loans as the continued lower interest rate environment improved our expected cash flow projections on those loans, therefore reducing our estimated impairment. Additionally, there was a $410 million increase in net interest income primarily from lower interest expense on funding debt.

Nine Months of 2011 vs. Nine Months of 2010. Our net loss remained flat for the first nine months of 2011 compared with the first nine months of 2010. The key components of our net loss in both the first nine months of 2011 and the first nine months of 2010 were credit-related expenses and fair value losses, which were partially offset by net interest income.

See Consolidated Results of Operations for more information on our results.

Net Worth

Our net worth deficit of $7.8 billion as of September 30, 2011 reflects the recognition of our total comprehensive loss of $5.3 billion and our payment to Treasury of $2.5 billion in senior preferred stock dividends during the third quarter of 2011. The Acting Director of FHFA will submit a request to Treasury on our behalf for $7.8 billion to eliminate our net worth deficit.

In the third quarter of 2011, we received $5.1 billion in funds from Treasury to eliminate our net worth deficit as of June 30, 2011. Upon receipt of the additional funds requested to eliminate our net worth deficit as of September 30, 2011, the aggregate liquidation preference on the senior preferred stock will be $112.6 billion, which will require an annualized dividend payment of $11.3 billion. The amount of this dividend payment exceeds our reported annual net income for any year since our inception. Through September 30, 2011, we have paid an aggregate of $17.2 billion to Treasury in dividends on the senior preferred stock.

Table 1 below displays our senior preferred stock dividend payments to Treasury and Treasury draws since entering conservatorship on September 6, 2008.

Table 1: Treasury Dividend Payments and Draw

	2008	**2009**	**2010**	**2011 to date (first nine months)**	**Cumulative Total**
			(Dollars in billions)		
Senior preferred stock dividends[1]	$	$ 2.5	$ 7.7	$ 7.0	$ 17.2
Treasury draws[2][3]	15.2	60.0	15.0	21.4	111.6
Cumulative percentage of senior preferred stock dividends to Treasury draws	0.2%	3.3%	11.3%	15.4%	15.4%

(1) Represents total quarterly cash dividends paid to Treasury, during the periods presented, based on an annual rate of 10% per year on the aggregate liquidation preference of the senior preferred stock.

(2) Represents the total draws received from Treasury and / or currently requested based on our quarterly net worth deficits for the periods presented. Draw requests were funded in the quarter following each quarterly net worth

deficit.

(3) Treasury draws do not include the initial $1.0 billion liquidation preference of the senior preferred stock, for which we did not receive any cash proceeds.

Total Loss Reserves

Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, increased to $75.6 billion as of September 30, 2011 from $74.8 billion as of June 30, 2011 and increased from $66.3 billion as of December 31, 2010. Our total loss reserve coverage to total nonperforming loans was 37.07% as of September 30, 2011, compared with 36.91% as of June 30, 2011 and 30.85% as of December 31, 2010. The continued stress on a broad segment of borrowers from continued high levels of unemployment and underemployment and the prolonged decline in home prices have caused our total loss reserves to remain high for the past few years. Further, the shift in our nonperforming loan balance from loans in our collective reserve to loans that are individually impaired has caused our coverage ratio to increase.

Our Strong New Book of Business and Expected Losses on Our Legacy Book of Business

We refer to the single-family loans we have acquired since the beginning of 2009 as our new single-family book of business and the single-family loans we acquired prior to 2009 as our legacy book of business. In this section, we discuss our expectations regarding the profitability of our new single-family book of business, as well as the performance and credit profile of these loans to date. We also discuss our expectations regarding losses on the loans in our legacy book of business.

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

We present a number of estimates and expectations in this executive summary regarding the profitability of single-family loans we have acquired, our single-family credit losses and credit-related expenses, and our draws from and dividends to be paid to Treasury. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, including future home prices and the future performance of our loans. Home prices are a key factor affecting the amount of credit losses and profitability we expect. As home prices decline, the loan-to-value ratios on our loans shift higher, and both the probability of default and the severity of loss increase. Furthermore, the level of regional variation in home price declines affects our results, as we will incur greater credit losses if home prices decline more significantly in regions where we have a greater concentration of loans. Our future estimates of our performance, as well as the actual amounts, may differ materially from our current estimates and expectations as a result of the timing, level and regional variation in home price changes, changes in interest rates, unemployment, other macroeconomic variables, direct and indirect consequences resulting from failures by servicers to follow proper procedures in the administration of foreclosure cases, government policy, changes in generally accepted accounting principles (GAAP), credit availability, social behaviors, the volume of loans we modify, the effectiveness of our loss mitigation strategies, management of our real-estate owned (REO) inventory and pursuit of contractual remedies, changes in the fair value of our assets and liabilities, impairments of our assets, and many other factors, including those discussed in Risk Factors, Forward-Looking Statements and elsewhere in this report and in Risk Factors in our 2010 Form 10-K. For example, if the economy were to enter a deep recession, we would expect actual outcomes to differ substantially from our current expectations.

Building a Strong New Single-Family Book of Business

Expected Profitability of Our Single-Family Acquisitions

Our new single-family book of business has a strong overall credit profile and is performing well. While it is too early to know how loans in our new single-family book of business will ultimately perform, given their strong credit risk profile, low levels of payment delinquencies shortly after acquisition, and low serious delinquency rates, we expect that, over their lifetime, these loans will be profitable, by which we mean our fee income on these loans will exceed our credit losses and administrative costs for them. Table 2 provides information about whether we expect loans we acquired in 1991 through the first nine months of 2011 to be profitable, and the percentage of our single-family guaranty book of business represented by these loans as of September 30, 2011. The expectations reflected in Table 2 are based on the credit risk profile of the loans we have acquired, which we discuss in more detail in Table 4: Credit Profile of Single-Family Conventional Loans Acquired and in Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business. These expectations are also based on numerous other assumptions, including our expectations regarding home price declines set forth in Outlook and other macroeconomic factors. As shown in Table 2, we expect loans we have acquired in 2009, 2010 and the first nine months of 2011 to be profitable over their lifetime. If future macroeconomic conditions turn out to be more adverse than our expectations, these loans could become unprofitable. For example, we believe that credit losses on these loans would exceed guaranty fee revenue if home prices declined nationally by approximately 10% from their September 2011 levels over the next five years based on our home price index. See Outlook for our expectations regarding home price declines.

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Table 2: Expected Lifetime Profitability of Single-Family Loans Acquired in 1991 through the First Nine Months of 2011

As Table 2 shows, the years in which we acquired single-family loans that we expect will be unprofitable are 2004 through 2008. A substantial majority of our realized credit losses since the beginning of 2009 were attributable to loans we acquired in 2005 through 2008. Although the 2004 vintage has been profitable to date, we currently believe that this vintage will not be profitable over its lifetime. While we previously believed the 2004 vintage would perform close to break-even, in 2011 our expectations for long-term home price changes have worsened, which has changed our expectation of future borrower behavior regarding these loans. We expect the 2005 through 2008 vintages to be significantly more unprofitable than the 2004 vintage. The loans we acquired in 2004 were originated under more conservative acquisition policies than loans we acquired from 2005 through 2008; however, because our 2004 acquisitions were made during a time when home prices were rapidly increasing, their performance is expected to suffer from the significant decline in home prices since 2006. The ultimate long-term performance and profitability of the 2004 vintage will depend on many factors, including changes in home prices, other economic conditions and borrower behavior.

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Loans we have acquired since the beginning of 2009 comprised 49% of our single-family guaranty book of business as of September 30, 2011. Our 2005 to 2008 acquisitions are becoming a smaller percentage of our single-family guaranty book of business, having decreased from 39% of our single-family guaranty book of business as of December 31, 2010 to 33% as of September 30, 2011. Our 2004 acquisitions constituted 5% of our single-family guaranty book of business as of September 30, 2011.

Serious Delinquency Rates by Year of Acquisition

In our experience, an early predictor of the ultimate performance of a portfolio of loans is the rate at which the loans become seriously delinquent (three or more months past due or in the foreclosure process) within a short period of time after acquisition. Loans we acquired in 2009 and 2010 have experienced historically low levels of delinquencies shortly after their acquisition. Table 3 shows, for single-family loans we acquired in each year from 2001 to 2010, the percentage that were seriously delinquent as of the end of the third quarter following the year of acquisition. Loans we acquired in 2011 are not included in this table because they were originated so recently that many of them could not yet have become seriously delinquent. As Table 3 shows, the percentage of our 2009 acquisitions that were seriously delinquent as of the end of the third quarter following their acquisition year was approximately nine times lower than the average comparable serious delinquency rate for loans acquired in 2005 through 2008. For loans originated in 2010, this percentage was approximately ten times lower than the average comparable rate for loans acquired in 2005 through 2008. Table 3 also shows serious delinquency rates for each year s acquisitions as of September 30, 2011. Except for 2008 acquisitions, whose performance has been affected by changes in underwriting and eligibility standards that became effective during the course of 2008, and more recent acquisition years, whose serious delinquency rates are likely lower than they will be after the loans have aged, Table 3 shows that the current serious delinquency rate generally tracks the trend of the serious delinquency rate as of the end of the third quarter following the year of acquisition. Below the table we provide information about the economic environment in which the loans were acquired, specifically home price appreciation and unemployment levels.

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Table 3: Single-Family Serious Delinquency Rates by Year of Acquisition

* For 2010, the serious delinquency rate as of September 30, 2011 is the same as the serious delinquency rate as of the end of the third quarter following the acquisition year.

(1) Based on Fannie Mae s Home Price Index (HPI), which measures average price changes based on repeat sales on the same properties. For 2011, the data show an initial estimate based on purchase transactions in Fannie-Freddie acquisition and public deed data available through the end of September 2011, supplemented by preliminary data available for October 2011. Previously reported data have been revised to reflect additional available historical data. Including subsequently available data may lead to materially different results. We recently enhanced our home price estimates to identify and exclude a greater portion of foreclosed home sales. As a result, some period to period comparisons of home prices differ from those indicated by our prior estimates.

(2) Based on the average national unemployment rates for each month reported in the labor force statistics current population survey (CPS), Bureau of Labor Statistics.

Credit Profile of Our Single-Family Acquisitions

Single-family loans we purchased or guaranteed from 2005 through 2008 were acquired during a period when home prices were rising rapidly, peaked, and then started to decline sharply, and underwriting and eligibility standards were more relaxed than they are now. These loans were characterized, on average and as discussed below, by higher loan-to-value (LTV) ratios and lower FICO credit scores than loans we have acquired since January 1, 2009. In addition, many of these loans were Alt-A loans or had other higher-risk loan attributes such as interest-only payment features. As a result of the sharp declines in home prices, 34% of the loans that we acquired from 2005 through 2008 had mark-to-market LTV ratios that were greater than 100% as of September 30, 2011, which means the principal balance of the borrower s primary mortgage exceeded the current market value of the borrower s home. This percentage is higher when second lien loans are included. The sharp decline in home prices, the severe economic recession that began in December 2007 and continued through June 2009, and continuing high unemployment and underemployment have significantly and adversely impacted the performance of loans we acquired from 2005 through 2008. We are continuing to take a number of actions to reduce our credit losses. We discuss these actions and our strategy in Reducing Credit Losses on Our Legacy Book of Business and Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management.

In 2009, we began to see the effect of actions we took, beginning in 2008, to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. As a result of these changes and other market dynamics, we reduced our acquisitions of loans with higher-risk attributes. Compared with the loans we acquired in 2005 through 2008, the loans we have acquired since January 1, 2009 have had better overall credit risk profiles at the time we acquired them and their early performance has been strong. Our experience has been that loans with characteristics such as lower original LTV ratios (that is, more equity held by the borrowers in the underlying properties), higher FICO credit scores and more stable payments will perform better than loans with risk characteristics such as higher original LTV ratios, lower FICO credit scores, Alt-A underwriting and payments that may adjust over the term of the loan.

Table 4 shows the credit risk profile of the single-family loans we have acquired since January 1, 2009 compared to the loans we acquired from 2005 through 2008.

Table 4: Credit Profile of Single-Family Conventional Loans Acquired[(1)]

	Acquisitions from 2009 through the first nine months of 2011	**Acquisitions from 2005 through 2008**
Weighted average loan-to-value ratio at origination	68%	73%
Weighted average FICO credit score at origination	761	722
Fully amortizing, fixed-rate loans	95%	86%
Alt-A loans[(2)]	1%	14%
Interest-only	1%	12%
Original loan-to-value ratio > 90%	6%	11%
FICO credit score < 620	*	5%

* Represents less than 0.5% of the total acquisitions.

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

(2) Newly originated Alt-A loans acquired in 2009 through 2011 consist of the refinance of existing Alt-A loans.

Improvements in the credit risk profile of our acquisitions since the beginning of 2009 over acquisitions in prior years reflect changes that we made to our pricing and eligibility standards, as well as changes that mortgage insurers made to their eligibility standards. We discuss these changes in our 2010 Form 10-K in Business Executive Summary Our Expectations Regarding Profitability, the Single-Family Loans We Acquired Beginning in 2009, and Credit Losses Credit Profile of Our Single-Family Acquisitions.

The credit risk profile of our acquisitions since the beginning of 2009 has been influenced further by the significant percentage of refinanced loans. Historically, refinanced loans generally have better credit profiles than purchase money loans. As we discuss in Outlook below, we expect fewer refinancings in 2011 and 2012 than in 2010.

Since 2009, our acquisitions have included a significant number of loans refinanced under our Refi Plus^{tm} initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. Our

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acquisitions under Refi Plus include our acquisitions under the Home Affordable Refinance Program (HARP), which was established by the Administration to help borrowers who may be unable to refinance the mortgage loan on their primary residence due to a decline in home values. The approximately 536,000 loans we acquired under Refi Plus in the first nine months of 2011 constituted approximately 27% of our total single-family acquisitions for the period, compared with approximately 23% of total single-family acquisitions in all of 2010. Under Refi Plus we acquire refinancings of performing Fannie Mae loans that have current LTV ratios up to 125% and, in some cases, lower FICO credit scores than we generally require. While it is too early to determine whether loans with higher risk characteristics refinanced under the Refi Plus program will perform differently from other refinanced loans, we expect Refi Plus loans will perform better than the loans they replace because Refi Plus loans reduce the borrowers monthly payments or otherwise should provide more sustainability than the borrowers old loans (for example, by having a fixed rate instead of an adjustable rate). Loans refinanced through the Refi Plus initiative in the first nine months of 2011 reduced borrowers monthly mortgage payments by an average of $171. This figure reflects all refinancings under Refi Plus, even those that involved a reduced term, and therefore higher monthly payments.

The LTV ratios at origination for our 2010 and 2011 acquisitions are higher than for our 2009 acquisitions, primarily due to our acquisition of Refi Plus loans. The percentage of loans with LTV ratios at origination greater than 90% has increased from 4% for 2009 acquisitions to 7% for 2010 acquisitions and 10% for acquisitions in the first nine months of 2011. We expect our acquisition of loans with high LTV ratios will increase in 2012 as a result of recently announced changes to HARP, which we discuss in Legislative and Regulatory Developments Changes to the Home Affordable Refinance Program.

Despite the increases in LTV ratios at origination associated with Refi Plus, the overall credit profile of our 2010 and 2011 acquisitions, like that of our 2009 acquisitions, is significantly stronger than the credit profile of our 2005 through 2008 acquisitions. Whether the loans we acquire in the future will exhibit an overall credit profile similar to our acquisitions since the beginning of 2009 will depend on a number of factors, including our future eligibility standards and those of mortgage insurers, the percentage of loan originations representing refinancings, the volume and characteristics of loans we acquire under the recently announced changes to HARP terms, our future objectives, government policy, and market and competitive conditions.

Expected Losses on Our Legacy Book of Business

The single-family credit losses we realized from January 1, 2009 through September 30, 2011, combined with the amounts we have reserved for single-family credit losses as of September 30, 2011, as described below, total approximately $135 billion. A substantial majority of these losses are attributable to single-family loans we purchased or guaranteed from 2005 through 2008.

While loans we acquired in 2005 through 2008 will give rise to additional credit losses that we will realize when the loans are charged off (upon foreclosure or our acceptance of a short sale or deed-in-lieu of foreclosure), we estimate that we have reserved for the substantial majority of the remaining losses on these loans. Even though we believe a substantial majority of the credit losses we have yet to realize on these loans has already been reflected in our results of operations as credit-related expenses, our credit-related expenses remain high as weakness in the housing and mortgage markets continues. We also expect that future defaults on loans in our legacy book of business and the resulting charge-offs will occur over a period of years. In addition, given the large current and anticipated supply of single-family homes in the market, we anticipate that it will take years before our REO inventory is reduced to pre-2008 levels.

We show how we calculate our realized credit losses in Table 15: Credit Loss Performance Metrics. Our reserves for credit losses described in this discussion consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses (collectively, our total loss reserves), plus the portion of fair value losses on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets that we estimate represents accelerated credit losses we expect to realize. For more information on our reserves for credit losses, see Table 12: Total Loss Reserves.

The fair value losses that we consider part of our reserves are not included in our total loss reserves. We recorded the majority of these fair value losses prior to our adoption in 2010 of accounting standards on the transfers of financial assets and the consolidation of variable interest entities. Before we adopted these standards, upon our acquisition of credit-impaired loans out of unconsolidated MBS trusts, we recorded fair value loss charge-offs against our reserve for guaranty losses. The amount of these charge-offs was the amount by which the acquisition cost of these loans exceeded their estimated fair value. We expect to realize a portion of these fair value losses as credit losses in the future (for loans that eventually involve charge-offs or foreclosure), yet these fair value losses have already reduced the mortgage loan balances reflected in our condensed consolidated balance sheets and have effectively been recognized in our condensed consolidated statements of operations and comprehensive loss through our provision for guaranty losses. We consider these fair value losses as an effective reserve, apart from our total loss reserves, to the extent that we expect to realize credit losses on the acquired loans in the future.

Reducing Credit Losses on Our Legacy Book of Business

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

- Reducing defaults by offering borrowers solutions that enable them to keep their homes (home retention solutions);
- Pursuing foreclosure alternatives, which help borrowers avoid foreclosure, to reduce the severity of the losses we incur;
- Efficiently managing timelines for home retention solutions, foreclosure alternatives, and foreclosures;
- Improving servicing standards and execution;
- Managing our REO inventory to minimize costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders, servicers and providers of credit enhancement.

As we work to reduce credit losses, we also seek to assist distressed borrowers, help stabilize communities, and support the housing market. In dealing with distressed borrowers, we first seek home retention solutions before turning to foreclosure alternatives. When there is no viable home retention solution or foreclosure alternative that can be applied, we seek to move to foreclosure expeditiously. Prolonged delinquencies can hurt local home values and destabilize communities, as these homes often go into disrepair. As a general rule, the longer borrowers remain delinquent, the greater our costs.

Reducing Defaults. Home retention solutions are a key element of our strategy to reduce defaults, and the majority of our home retention solutions are loan modifications. Successful modifications allow borrowers who were having problems making their pre-modification mortgage payments to remain in their homes. While loan modifications contribute to higher credit-related expenses in the near term, we believe that successful modifications (those that enable borrowers to remain current on their loans) will ultimately reduce our credit losses over the long term from what they otherwise would have been if we had taken the loans to foreclosure. We completed approximately 161,000 loan modifications in the first nine months of 2011, bringing the total number of loan modifications we have completed since January 2009 to over 660,000. The substantial majority of these modifications involved deferring or lowering borrowers monthly mortgage payments, which we believe increases the likelihood borrowers will be able to remain current on their modified loans. Whether our modifications are ultimately successful depends heavily on economic factors, such as unemployment rates, household wealth and income, and home prices. See Table 40:

Statistics on Single-Family Loan Workouts and the accompanying discussion for additional information on our home retention efforts, including our modifications, as well as our foreclosure alternatives. For a description of the impact of modifications on our credit-related expenses, see Consolidated Results of Operations Credit-Related Expenses Provision for Credit Losses.

Pursuing Foreclosure Alternatives. If we are unable to provide a viable home retention solution for a distressed borrower, we seek to offer a foreclosure alternative and complete it in a timely manner. Our foreclosure alternatives are primarily preforeclosure sales, which are sometimes referred to as short sales, as well as deeds-in-lieu of foreclosure. These alternatives are intended to reduce the severity of our loss resulting from a borrower s default while enabling the borrower to avoid going through a foreclosure. We provide information about the volume of foreclosure alternatives we completed in the first nine months of 2011 in Table 5: Credit Statistics, Single-Family Guaranty Book of Business.

Managing Timelines for Workouts and Foreclosures. We refer to home retention solutions and foreclosure alternatives as workouts. We believe that home retention solutions are most effective in preventing defaults when completed at an early stage of delinquency. Similarly, our foreclosure alternatives are more likely to be successful in reducing our loss severity if they are executed expeditiously. Accordingly, it is important to us for our servicers to work with delinquent borrowers early in the delinquency to determine whether home retention solutions or foreclosure alternatives will be viable and, where no workout solution is viable, to reduce delays in proceeding to foreclosure.

Circumstances in the foreclosure environment have resulted in foreclosures proceeding at a slow pace. As a result of the housing market downturn that began in 2006 and significantly worsened in 2008, the volume of foreclosures to be processed by servicers and states significantly increased in 2009 and the first nine months of 2010. In October 2010, a number of single-family mortgage servicers temporarily halted some or all of the foreclosures they were processing after discovering deficiencies in their foreclosure processes and the processes of their service providers. In response to the foreclosure process deficiencies, some states changed their foreclosure processes to require additional review and verification of the accuracy of pending and future foreclosure filings. Some states also added requirements to the foreclosure process, including mediation processes and requirements to file new affidavits. Further, some state courts have issued rulings calling into question the validity of some existing foreclosure practices. These actions halted or significantly delayed not only existing, but new foreclosures. As an example, in December 2010, the New Jersey Supreme Court halted all uncontested residential foreclosure proceedings by six large loan servicers for a period of approximately nine months until those servicers demonstrated that their foreclosure processes were compliant with law. New Jersey also imposed a new requirement that counsel certify the accuracy of all pending and future foreclosure complaints. In addition, in August 2011 a New Jersey appellate decision held that defects in notices of intent to foreclose required dismissal and restart of the pending foreclosure process rather than simply correcting the defective notices. We had more than 22,000 loans in foreclosure in New Jersey as of the beginning of the third quarter of 2011, but foreclosures during the quarter led to our acquiring only 151 REO properties.

While servicers have generally ended their outright foreclosure halts, they continue to process foreclosures at a slow pace as they update their procedures to remediate their process deficiencies and meet new legislative, regulatory and judicial requirements. In addition, servicers and states are dealing with the backlog of foreclosures resulting from these delays and from the elevated level of foreclosures resulting from the housing market downturn. For foreclosures completed in the third quarter of 2011, measuring from the last monthly period for which the borrowers fully paid their mortgages to when we added the related properties to our REO inventory, the average number of days it took in each state to ultimately foreclose ranged from 374 days in Missouri to 906 days in Florida. Florida accounted for 29% of our loans that were in the foreclosure process as of September 30, 2011.

These extended time periods to complete foreclosures increase our costs of holding these loans. In addition, to the extent home prices decline while foreclosure proceedings are drawn out, the proceeds we ultimately receive from the sale of the foreclosed properties will be lower. Slower foreclosures also result in loans remaining seriously delinquent in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last year than it would have if the pace of foreclosures had been faster. We believe the changes in the foreclosure environment discussed above will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related expenses. Moreover, we believe these conditions will delay the recovery of the housing market because it will take longer to clear the market s supply of distressed homes. Distressed homes typically sell at a discount compared to non-distressed homes and, therefore, a lingering population of distressed homes will continue to negatively affect overall home prices. See Risk Factors for further information about the potential impact of the foreclosure

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process deficiencies and resulting changes in the foreclosure environment on our business, results of operations, financial condition and net worth.

Improving Servicing Standards and Execution. The performance of our mortgage servicers is critical to our success in reducing defaults, completing foreclosure alternatives and managing workout and foreclosure timelines efficiently, because servicers are the primary point of contact with borrowers. Improving servicing standards is therefore a key aspect of our strategy to reduce our credit losses. We have taken a number of steps to improve the servicing of our delinquent loans.

In June 2011, we issued new standards for mortgage servicers under FHFA s Servicing Alignment Initiative. The initiative is aimed at establishing consistency in the servicing of delinquent loans owned or guaranteed by Fannie Mae and Freddie Mac. Among other things, the new servicing standards, which became effective October 1, 2011, are designed to result in earlier, more frequent and more effective contact with borrowers and to improve servicer performance by providing servicers monetary incentives for exceeding loan workout benchmarks and by imposing fees on servicers for failing to meet loan workout benchmarks or foreclosure timelines.

In some cases, we transfer servicing on loan populations that include loans with higher-risk characteristics to special servicers with whom we have worked to develop high-touch protocols for servicing these loans. These protocols include lowering the ratio of loans per servicer employee, prescribing borrower outreach strategies to be used at earlier stages of delinquency, and providing distressed borrowers a single point of contact to resolve issues. Transferring servicing on higher-risk loans enables the borrowers (and loans) to benefit from these high-touch protocols while increasing the original servicer s capacity to service the remaining loans, creating an opportunity to improve service to the remaining borrowers.

In September 2011, we issued our first ratings of servicers performance under our Servicer Total Achievement and Rewards (STAR) program. The STAR program is designed to encourage improvements in customer service and foreclosure prevention outcomes for homeowners by rating servicers on their performance in these areas.

While we believe these steps will improve the servicing on our loans, ultimately we are dependent on servicers willingness, efficiency and ability to implement our home retention solutions and foreclosure alternatives, and to manage timelines for workouts and foreclosures.

Managing Our REO Inventory. Efficient management of our REO inventory of homes acquired through deed-in-lieu of foreclosure or foreclosure is another critical element of our strategy for reducing credit losses. Since January 2009, we have strengthened our REO sales capabilities by increasing resources in this area, as we continue to manage our REO inventory to reduce costs and maximize sales proceeds. As Table 5 shows, in the first nine months of 2011 we have already disposed of as many properties as we did in all of 2010, and our dispositions in 2010 represented a 51% increase over our dispositions in 2009.

Neighborhood stabilization is a core principle in our approach to managing our REO inventory. In the first nine months of 2011, we completed repairs to approximately 69,300 properties sold from our single-family REO inventory, at an average cost of $6,122 per property. Repairing REO properties increases sales to owner occupants and increases financing options for REO buyers. In addition, our First Look marketing period contributes to neighborhood stabilization by encouraging homeownership. During this First Look period, owner occupants, some nonprofit organizations and public entities may submit offers and purchase properties without competition from investors. During the first nine months of 2011, approximately 113,900 of the single-family properties we sold were purchased by owner-occupants, nonprofit organizations or public entities.

We currently lease properties to tenants who occupied the properties before we acquired them into our REO inventory, which can minimize disruption by providing additional time to find alternate housing, help stabilize local communities, provide us with rental income, and support our compliance with federal and state laws protecting tenants in foreclosed properties. As of September 30, 2011, approximately 10,000 tenants leased our REO properties.

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The changing foreclosure environment discussed above has delayed our acquisitions of REO properties. Given the large number of seriously delinquent loans in our single-family guaranty book of business and the large existing and anticipated supply of single-family homes in the market, we expect it will take years before our REO inventory approaches pre-2008 levels.

Pursuing Contractual Remedies. We conduct targeted reviews of our loans and, when we discover loans that do not meet our underwriting or eligibility requirements, we may make demands for lenders to repurchase these loans or compensate us for losses sustained on the loans. We also make demands for lenders to repurchase or compensate us for loans for which the mortgage insurer rescinds coverage. The volume of our repurchase requests rose in 2010 as compared with 2009 and has remained high through the first nine months of 2011. During the first nine months of 2011, lenders repurchased from us or reimbursed us for losses on approximately $8.8 billion in loans, measured by unpaid principal balance, pursuant to their contractual obligations. In addition, as of September 30, 2011, we had outstanding requests for lenders to repurchase from us or reimburse us for losses on $9.5 billion in loans, of which 25.4% had been outstanding for more than 120 days.

These dollar amounts represent the unpaid principal balance of the loans underlying the repurchase requests, not the actual amounts we have received or requested from the lenders. When lenders pay us for these requests, they pay us either to repurchase the loans or else to make us whole for our losses in cases where we have acquired and disposed of the property underlying the loans. Make-whole payments are typically for less than the unpaid principal balance because we have already recovered some of the balance through the sale of the REO. As a result, our actual cash receipts relating to these outstanding repurchase requests are significantly lower than the unpaid principal balance of the loans.

We are also pursuing contractual remedies from providers of credit enhancement on our loans, including mortgage insurers. We received proceeds under our mortgage insurance policies for single-family loans of $4.6 billion for the first nine months of 2011. See Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management for a discussion of our repurchase and reimbursement requests and outstanding receivables from mortgage insurers, as well as the risk that one or more of these counterparties fails to fulfill its obligations to us.

We believe the actions we have taken to stabilize the housing market and minimize our credit losses will reduce our future credit losses below what they otherwise would have been. However, continuing change in broader market conditions makes it difficult to predict how effective these actions ultimately will be in reducing our credit losses. Moreover, it will be difficult to measure the ultimate impact of our actions, given that current conditions in the housing market are unprecedented.

For more information on the strategies and actions we are taking to minimize our credit losses, see Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management in our 2010 Form 10-K and in this report.

Credit Performance

Table 5 presents information for each of the last seven quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The workout information in Table 5 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 5: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2011				2010			
	Q3 YTD	Q3	Q2	Q1	Full Year	Q4	Q3	Q2
					(Dollars in millions)			
each								
ency rate[2]	4.00%	4.00%	4.08%	4.27%	4.48%	4.48%	4.56%	4.99%
loans[3]	$ 202,522	$ 202,522	$ 200,793	$ 206,098	$ 212,858	$ 212,858	$ 212,305	$ 217,216
erty								
erties	122,616	122,616	135,719	153,224	162,489	162,489	166,787	129,310
	$ 11,039	$ 11,039	$ 12,480	$ 14,086	$ 14,955	$ 14,955	$ 16,394	$ 13,043
eserves[4]	$ 70,741	$ 70,741	$ 68,887	$ 66,240	$ 60,163	$ 60,163	$ 58,451	$ 59,087
es[5]	$ 73,973	$ 73,973	$ 73,116	$ 70,466	$ 64,469	$ 64,469	$ 63,105	$ 64,877
d:								
erty								
erties):								
	152,440	45,194	53,697	53,549	262,078	45,962	85,349	68,838
	(192,313)	(58,297)	(71,202)	(62,814)	(185,744)	(50,260)	(47,872)	(49,517)
xpenses[7]	$ 21,821	$ 4,782	$ 5,933	$ 11,106	$ 26,420	$ 4,064	$ 5,559	$ 4,871
	$ 13,798	$ 4,384	$ 3,810	$ 5,604	$ 23,133	$ 3,111	$ 8,037	$ 6,923
ctivity								
s):								
loan								
	188,205	68,227	59,019	60,959	440,276	89,691	113,367	132,192
ales and								
	57,602	19,306	21,176	17,120	75,391	15,632	20,918	21,515
outs	245,807	87,533	80,195	78,079	515,667	105,323	134,285	153,707
s a linquent ranty book								
	26.58%	28.39%	25.71%	25.01%	37.30%	30.47%	37.86%	41.18%

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

(2)

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

(3) Represents the total amount of nonperforming loans including troubled debt restructurings and HomeSaver Advance (HSA) first-lien loans. A troubled debt restructuring is a restructuring of a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty. HSA first-lien loans are unsecured personal loans in the amount of past due payments used to bring mortgage loans current. We generally classify loans as nonperforming when the payment of principal or interest on the loan is two months or more past due.

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

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

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

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

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

(9) Consists of (a) modifications, which do not include trial modifications or repayment plans or forbearances that have been initiated but not completed; (b) repayment plans and forbearances completed and (c) HomeSaver Advance first-lien loans. See Table 40: Statistics on Single-Family Loan Workouts in Risk Management Credit Risk Management for additional information on our various types of loan workouts.

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

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. This decrease is primarily the result of home retention solutions, as well as foreclosure alternatives and completed foreclosures. The decrease is also attributable to our acquisition of loans with stronger credit profiles since the beginning of 2009, as these loans have become an increasingly larger portion of our single-family guaranty book of business, resulting in a smaller percentage of our loans becoming seriously delinquent.

Although our single-family serious delinquency rate has decreased significantly since the first quarter of 2010, our serious delinquency rate and the period of time that loans remain seriously delinquent has been negatively affected in recent periods by the increase in the average number of days it is taking to complete a foreclosure. As described in Reducing Credit Losses on Our Legacy Book of Business Managing Timelines for Workouts and Foreclosures, high levels of foreclosures, continuing issues in the servicer foreclosure process, changes in state foreclosure laws, and new court rules and proceedings have lengthened the time it takes to foreclose on a mortgage loan in many states. We expect serious delinquency rates will continue to be affected in the future by home price changes, changes in other macroeconomic conditions, the length of the foreclosure process, the volume of loan modifications, and the extent to which borrowers with modified loans continue to make timely payments.

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

Housing and Mortgage Market and Economic Conditions

During the third quarter of 2011, economic activity picked up from the pace of the second quarter. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.5% on an annualized basis during the quarter, according to the Bureau of Economic Analysis advance estimate. The overall economy gained an estimated 389,000 jobs in the third quarter as a result of employment growth in the private sector. According to the U.S. Bureau of Labor Statistics, as of October 2011, over the past 12 months through September there has been an increase of 1.6 million non-farm jobs. The unemployment rate was 9.1% in September 2011, compared with 9.2% in June 2011, based on data from the U.S. Bureau of Labor Statistics. Employment will likely need to post sustained improvement for an extended period to have a positive impact on housing. We estimate the likelihood of a recession by the end of next year at close to 50%.

Existing home sales remained weak during the third quarter of 2011, averaging slightly below second quarter levels. Sales of foreclosed homes and short sales (distressed sales) continued to represent an outsized portion of the market. Distressed sales accounted for 30% of existing home sales in September 2011, down from 35% in September 2010, according to the National Association of REALTORS®. New home sales during the third quarter of 2011 were also below second quarter levels, remaining at historically low levels.

The overall mortgage market serious delinquency rate has trended down since peaking in the fourth quarter of 2009 but has remained historically high at 7.9% as of June 30, 2011, according to the Mortgage Bankers Association National Delinquency Survey. While the supply of new single-family homes as measured by the inventory/sales ratio declined to its long-term average level in September, the inventory/sales ratio for existing single-family homes remained above average. Properties that are vacant and held off the market, combined with the portion of properties backing seriously delinquent mortgages not currently listed for sale, represent a significant shadow inventory putting downward pressure on home prices.

We estimate that home prices on a national basis decreased by 0.2% in the third quarter of 2011 and have declined by 21.0% from their peak in the third quarter of 2006. We recently enhanced our method for estimating home price changes to exclude a greater portion of foreclosed home sales, as we discuss below in Outlook. If these enhancements had been in place last quarter, instead of reporting a 21.6% decline in home prices through the second quarter of 2011 from their peak, we would have reported a 20.9% decline. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices has left many homeowners with negative equity in their mortgages, which means their principal mortgage balance exceeds the current market value of their home. According to CoreLogic, approximately 11 million, or 23%, of all residential properties with mortgages were in a negative equity position in the second quarter of 2011. This increases the risk that borrowers might walk away from their mortgage obligations, causing the loans to become delinquent and proceed to foreclosure.

During the third quarter of 2011, national multifamily market fundamentals, which include factors such as effective rents and vacancy rates, continued to improve, benefiting from rental demand. Based on preliminary third-party data, we estimate that the national multifamily vacancy rate fell to 6.50% in the third quarter of 2011, after having fallen to 6.75% in the second quarter of 2011. In addition, we estimate that average asking rents increased for the sixth quarter in a row, climbing by 1.0% in the third quarter of 2011 on a national basis. As indicated by data from Axiometrics, Inc., multifamily concession rates, the rental discount rate as a percentage of asking rents, declined to about -3.0% as of September 2011. The increase in overall rental demand was also reflected in an estimated increase of 36,000 units in the net number of occupied rental units during the third quarter of 2011, according to preliminary data from Reis, Inc. Although national multifamily market fundamentals continued to improve, certain local markets and properties continued to underperform compared to the rest of the country due to localized underlying economic conditions.

Outlook

Overall Market Conditions. We expect weakness in the housing and mortgage markets to continue in the fourth quarter of 2011. The high level of delinquent mortgage loans will ultimately result in high levels of foreclosures, which is likely to add to the excess housing inventory. Home sales are unlikely to rise before the unemployment rate improves further.

We expect that single-family default and severity rates, as well as the level of single-family foreclosures, will remain high in 2011. Despite signs of multifamily sector improvement at the national level, we expect multifamily charge-offs in 2011 to remain generally commensurate with 2010 levels as certain local markets and properties continue to exhibit weak fundamentals. Conditions may worsen if the unemployment rate increases on either a national or regional basis.

Although we expect the recently announced changes to HARP will result in our acquiring more refinancings in 2012 than we would have acquired in the absence of the changes, we expect fewer refinancings overall in each of 2011 and 2012 than in 2010 as a result of the high number of mortgages that have already refinanced to low rates in recent years. As a result, we expect the pace of our loan acquisitions for each of 2011 and for 2012 will be lower than in 2010. Our loan acquisitions also could be negatively affected by the decrease in the fourth quarter of 2011 in the maximum size of loans we may acquire in specified high-cost areas from $729,750 to $625,500. In addition, if the Federal Housing Administration (FHA) continues to be the lower-cost option for some consumers, and in some cases the only option, for loans with higher LTV ratios, our market share could be adversely impacted. As our acquisitions decline, our future revenues will be negatively impacted.

We estimate that total originations in the U.S. single-family mortgage market in 2011 will decrease from 2010 levels by approximately 23%, from an estimated $1.7 trillion to an estimated $1.3 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decline from approximately $1.1 trillion to approximately $905 billion. Refinancings comprised approximately 74% of our single-family business volume in the first nine months of 2011, compared with 78% for all of 2010.

Home Price Declines. While the rate of decline in home prices has moderated in recent quarters, we continue to expect that home prices on a national basis will decline further before stabilizing in 2012. We currently expect a peak-to-trough home price decline on a national basis ranging from 22% to 28%, and that it would take the occurrence of an additional adverse economic event to reach the high end of the range. Future home price changes may be very different from our estimates as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to housing finance reform; the management of the Federal Reserve s MBS holdings; and the impact of those actions on home prices, unemployment and the general economic and interest rate environment. Because of these uncertainties, the actual home price decline we experience may differ significantly from these estimates. We also expect significant regional variation in home price declines and stabilization.

Our estimates of home price declines are based on our home price index, which is calculated differently from the S&P/Case-Shiller U.S. National Home Price Index and therefore results in different percentages for comparable declines. Our 22% to 28% peak-to-trough home price decline estimate corresponds to an approximate 32% to 40% peak-to-trough decline using the S&P/Case-Shiller index method. Our estimates differ from the S&P/Case-Shiller index in two principal ways: (1) our estimates weight expectations by number of properties, whereas the S&P/Case-Shiller index weights expectations based on property value, causing home price declines on higher priced homes to have a greater effect on the overall result; and (2) the S&P/Case-Shiller index includes sales of foreclosed homes while our estimates attempt to exclude foreclosed home sales, because we believe that differing maintenance practices and the forced nature of the sales make foreclosed home prices less representative of market values. We believe, however, that the impact of sales of foreclosed homes is indirectly reflected in our estimates as a result of their impact on the pricing of non-distressed sales. We recently enhanced our home price estimates to identify and exclude a greater portion of foreclosed home sales. As a result, some period to period comparisons of home prices differ from those indicated by our prior estimates. We calculate the S&P/Case-Shiller comparison numbers by modifying our internal home price estimates to account for weighting based on property value and the impact of foreclosed property sales. In addition to these differences, our estimates are based on our own internally available data combined with publicly available data, and are therefore based on data collected nationwide, whereas the S&P/Case-Shiller index is based on publicly available data, which may be limited in certain geographic areas of the country. Our comparative calculations to the S&P/Case-Shiller index provided above are not modified to account for this data pool difference.

Credit-Related Expenses and Credit Losses. Our credit-related expenses, which include our provision for credit losses, reflect our recognition of losses on our loans. Through our provision for credit losses, we recognize credit-related expenses on loans in the period in which we determine that we have incurred a probable loss on the loans as of the end of the period, or in which we have granted concessions to the borrowers. Accordingly, our credit-related expenses are affected by changes in home prices, borrower payment behavior, the types and volumes of loss mitigation activities we complete, and estimated recoveries from our lender and mortgage insurer counterparties. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds in lieu of foreclosure. We expect our credit losses in 2011 to be lower than in 2010, as delays in foreclosures keep us from realizing credit losses until later periods. We describe our credit loss outlook above under Our Strong New Book of Business and Expected Losses on our Legacy Book of Business Expected Losses on Our Legacy Book of Business.

Uncertainty Regarding our Long-Term Financial Sustainability and Future Status. There is significant uncertainty in the current market environment, and any changes in the trends in macroeconomic factors that we currently anticipate, such as home prices and unemployment, may cause our future credit-related expenses and credit losses to vary significantly from our current expectations. Although Treasury s funds under the senior preferred stock purchase agreement permit us to remain solvent and avoid receivership, the resulting dividend payments are substantial. We do not expect to earn profits in excess of our annual dividend obligation to Treasury for the indefinite future. We expect to request additional draws under the senior preferred stock purchase agreement in future periods, which will further increase the dividends we owe to Treasury on the senior preferred stock. We expect that, over time, our dividend obligation to Treasury will constitute an increasing portion of our future draws under the senior preferred stock purchase agreement. As a result of these factors, there is significant uncertainty about our long-term financial sustainability.

In addition, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. We expect this uncertainty to continue. On February 11, 2011 Treasury and the Department of Housing and Urban Development (HUD) released a report to Congress on reforming America s housing finance market. The report states that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. The report emphasizes the importance of providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See Legislative and Regulatory Developments in this report and Legislation and GSE Reform in our 2010 Form 10-K for discussions of recent legislative reform of the financial services industry and proposals for GSE reform that could affect our business. See Risk Factors in this report for a discussion of the risks to our business relating to the uncertain future of our company.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

GSE Reform

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), on February 11, 2011, Treasury and HUD released their report to Congress on ending the conservatorships of Fannie Mae and Freddie Mac and reforming the housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae s and Freddie Mac s role in the market and ultimately wind down both institutions.

The report identifies a number of policy steps that could be used to wind down Fannie Mae and Freddie Mac, reduce the government s role in housing finance and help bring private capital back to the mortgage market. These steps include (1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established in the Federal Housing Finance Regulatory Reform Act of 2008 (the 2008 Reform Act), (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae s and Freddie Mac s portfolios, consistent with Treasury s senior preferred stock purchase agreements with the companies.

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

We expect that Congress will continue to hold hearings and consider legislation in the remainder of 2011 and in 2012 on the future status of Fannie Mae and Freddie Mac. Several bills have been introduced that would place the GSEs into receivership after a period of time and either grant federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or leave secondary mortgage market activities to entities in the private sector. For example, legislation has been introduced in both the House of

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Representatives and the Senate that would require FHFA to make a determination within two years of enactment whether the GSEs were financially viable and, if the GSEs were determined not to be financially viable, to place them into receivership. As drafted, these bills may upon enactment impair our ability to issue securities in the capital markets and therefore our ability to conduct our business, absent the federal government providing an explicit guarantee of our existing and ongoing liabilities.

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

- suspend current compensation packages and apply a government pay scale for GSE employees;
- require the GSEs to increase guaranty fees;
- subject GSE loans to the risk retention standards in the Dodd-Frank Act;
- require a quicker reduction of GSE portfolios than required under the senior preferred stock purchase agreement;
- require Treasury to pre-approve all GSE debt issuances;
- repeal the GSEs affordable housing goals;
- provide additional authority to FHFA s Inspector General;
- prohibit FHFA from approving any new GSE products during conservatorship or receivership, with certain exceptions;
- prevent Treasury from amending the senior preferred stock purchase agreement to reduce the current dividend rate on our senior preferred stock;
- abolish the Affordable Housing Trust Fund that the GSEs are required to fund except when such contributions have been temporarily suspended by FHFA;
- require FHFA to identify mission critical assets of the GSEs and require the GSEs to dispose of non-mission critical assets;
- cap the maximum aggregate amount of funds Treasury or any other agency or entity of the federal government can provide to the GSEs subject to certain qualifications;
- grant FHFA the authority to revoke the enterprises charters following receivership under certain circumstances; and
- subject the GSEs to the Freedom of Information Act.

We expect additional legislation relating to the GSEs to be introduced and considered by Congress in the remainder of 2011 and in 2012. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

In sum, there continues to be uncertainty regarding the future of our company, including how long we will continue to be in existence, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. See Risk Factors for a discussion of the risks to our business relating to the uncertain future of our company. Also see Risk Factors in our 2010 Form 10-K for a discussion of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Changes to the Home Affordable Refinance Program

On October 24, 2011, FHFA, Fannie Mae, and Freddie Mac announced changes to HARP aimed at making refinancing under the program easier and potentially less expensive for qualifying homeowners and

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encouraging lenders to participate in the program. While HARP previously limited eligibility to borrowers with mortgage loans that had LTV ratios no greater than 125%, the new HARP guidelines remove that ceiling when a borrower refinances into a new fixed-rate mortgage. Other changes to HARP include:

- eliminating certain risk-based fees for borrowers who refinance into shorter-term loans and lowering fees for other borrowers;
- eliminating the need for a new property appraisal in many cases;
- extending the ending date for HARP from June 2012 to December 2013; and
- reducing the extent to which lenders will be liable for violations of representations and warranties in connection with refinancings under HARP.

We are working with FHFA to finalize the fees that we will charge for loans refinanced under HARP s new terms. We expect these fees to be announced in the fourth quarter of 2011. At this time, we do not know how many eligible borrowers are likely to refinance under the program and, therefore, how many HARP loans we will acquire.

We may incur additional credit-related expenses as a result of these changes to HARP. However, we believe the expanded refinance opportunities for borrowers under HARP may help prevent future delinquencies and defaults, because loans refinanced under the program reduce the borrowers monthly payments or otherwise should provide more sustainability than the borrowers old loans (for example, by having a fixed rate instead of an adjustable rate). The extent to which these factors will impact our results of operations will depend on a number of factors, including the terms, credit profile and volume of our acquisitions under the revised program. See Risk Factors for a discussion of how efforts we may undertake in support of the housing market may affect us.

Discontinuation of Our Retained Attorney Network

On October 18, 2011, FHFA directed us to phase out the practice of requiring mortgage servicers to use our network of retained attorneys to perform default- and foreclosure-related legal services for our loans. FHFA also directed us to work with Freddie Mac, through FHFA s Servicing Alignment Initiative, to develop and implement consistent requirements, policies and processes for default- and foreclosure-related legal services. As set forth in FHFA s directive, we will conduct these activities over a transitional period and will seek to minimize disruption to pending matters. During the transitional period, servicers will continue to be directly responsible for managing the foreclosure process and monitoring network firm performance, in accordance with our current requirements and contractual arrangements. Phasing out the use of our retained attorney network may make it more difficult for us to oversee the performance of default- and foreclosure-related legal services for our loans, which may adversely impact our efforts to reduce our credit losses.

Proposed Changes to Our Single-Family Guaranty Fee Pricing

Consistent with the recommendation in the Administration s report on ending the conservatorships of Fannie Mae and Freddie Mac, we expect that single-family guaranty fees will increase in the coming years, although we do not know the timing, form or extent of these increases. There have been recent public discussions of potential fee increases by the Administration, members of Congress, and FHFA. On September 23, 2011, the Administration submitted a legislative proposal to the Joint Select Committee on Deficit Reduction which would, among other matters, mandate FHFA to require Fannie Mae and Freddie Mac to impose an additional fee, the Conservatorship Recoupment Guarantee Fee, on all single-family mortgages guaranteed on or after January 1, 2013. The proposal requires that the new fee be not less than 10 basis points. The proposal also provides discretion for FHFA to mandate the imposition of a delivery fee in lieu of a guaranty fee increase. Certain members of Congress have also recommended that the Joint Select Committee on Deficit Reduction mandate that FHFA require the GSEs to increase their guaranty fees. In addition, FHFA s Acting Director expressed in a public speech in September 2011 that he expects guaranty fees to increase beginning in 2012.

Servicing Compensation Initiative

In September 2011, FHFA issued a discussion paper to propose and seek comments on two new possible mortgage servicing compensation structures in connection with its joint initiative on servicing compensation announced earlier this year. The joint initiative, which FHFA directed Fannie Mae and Freddie Mac to work on in coordination with FHFA and HUD, was established to consider alternatives for future mortgage servicing structures and servicing compensation for single-family mortgage loans. One possible structure presented in the discussion paper, which FHFA described as representing a modest change to the current model, provides for a reduced minimum servicing fee accompanied by a reserve account. The reserve account would be available to offset unexpectedly high servicing costs resulting from extraordinary deteriorations in industry conditions. The second possible structure, which FHFA characterized as a fundamental change to the current model, introduces a fee for service structure that provides for a base servicing fee for performing loans and incentive compensation and compensatory fees for servicing non-performing loans, with the possibility of avoiding capitalization of mortgage servicing rights. We provide additional information on FHFA s initiative on servicing compensation in Business Business Segments Single-Family Business Single-Family Mortgage Servicing in our 2010 Form 10-K.

For additional information on legislative and regulatory matters affecting us, refer to Business Legislation and GSE Reform and Business Our Charter and Regulation of Our Activities in our 2010 Form 10-K, MD&A Legislative and Regulatory Developments Proposed Rules Implementing the Dodd-Frank Act in our quarterly report for the quarter ended March 31, 2011 (First Quarter 2011 Form 10-Q), and MD&A Legislative and Regulatory Developments in our quarterly report for the quarter ended June 30, 2011 (Second Quarter 2011 Form 10-Q).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in Note 1, Summary of Significant Accounting Policies of this report and in our 2010 Form 10-K.

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

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

See MD&A Critical Accounting Policies and Estimates in our 2010 Form 10-K for a detailed discussion of these critical accounting policies and estimates. We provide below information about our Level 3 assets and liabilities as of September 30, 2011 as compared with December 31, 2010. We also describe any significant changes in the judgments and assumptions we made during the first nine months of 2011 in applying our critical accounting policies and significant changes to critical estimates.

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in Note 13, Fair Value.

Fair Value Hierarchy Level 3 Assets and Liabilities

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

Table 6 presents a comparison of the amount of financial assets carried in our condensed consolidated balance sheets at fair value on a recurring basis (recurring assets) that were classified as Level 3 as of September 30, 2011 and December 31, 2010. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the amount of financial instruments carried at fair value on a recurring basis and classified as Level 3 to vary each period.

Table 6: Level 3 Recurring Financial Assets at Fair Value

	As of September 30, 2011	As of December 31, 2010
	(Dollars in millions)	
Trading securities	$ 4,145	$ 4,576
Available-for-sale securities	29,519	31,934
Mortgage loans	2,284	2,207
Other assets	227	247
Level 3 recurring assets	$ 36,175	$ 38,964
Total assets	$ 3,213,877	$ 3,221,972
Total recurring assets measured at fair value	$ 161,093	$ 161,696
Level 3 recurring assets as a percentage of total assets	1%	1%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	22%	24%
Total recurring assets measured at fair value as a percentage of total assets	5%	5%

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include mortgage loans and acquired property. The fair value of Level 3 nonrecurring assets totaled $62.2 billion during the nine months ended September 30, 2011 and $63.0 billion during the year ended December 31, 2010.

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $1.1 billion as of September 30, 2011 and $1.0 billion as of December 31, 2010, and other liabilities with a fair value of $173 million as of September 30, 2011 and $143 million as of December 31, 2010.

Total Loss Reserves

Our total loss reserves consist of the following components:

- Allowance for loan losses;
- Allowance for accrued interest receivable;
- Reserve for guaranty losses; and
- Allowance for preforeclosure property tax and insurance receivable.

These components can be further divided into single-family portions, which collectively make up our single-family loss reserves, and multifamily portions, which collectively make up our multifamily loss reserves.

In the third quarter of 2011, we updated our allowance for loan loss models for individually impaired loans to incorporate more home price data at the regional level rather than at the national level. We believe this approach is a better estimation of possible home price paths and related default expectations; it has resulted in a decrease to our allowance for loan losses and a reduction of credit-related expenses of approximately $800 million.

In the second quarter of 2011, we updated our loan loss models to incorporate more recent data on prepayments of modified loans, which resulted in an increase to our allowance for loan losses and an increase to credit-related expenses of approximately $1.5 billion. The change resulted in slower expected prepayment speeds, which extended the expected lives of modified loans and lowered the present value of cash flows on those loans. Also in the second quarter of 2011, we updated our estimate of the reserve for guaranty losses related to private-label mortgage-related securities that we have guaranteed to increase our focus on earlier stage delinquency, rather than foreclosure trends, as the primary driver in estimating incurred losses. We believe delinquencies are a better indicator of incurred losses compared to foreclosure trends because the recent delays in the foreclosure process have interrupted the normal flow of delinquent mortgages into foreclosure. This update resulted in an increase to our reserve for guaranty losses included within Other liabilities and an increase to credit related-expenses of approximately $700 million.

CONSOLIDATED RESULTS OF OPERATIONS

In this section we discuss our condensed consolidated results of operations for the periods indicated. You should read this section together with our condensed consolidated financial statements, including the accompanying notes.

Table 7 summarizes our condensed consolidated results of operations for the periods indicated.

Table 7: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2011	2010	Variance	2011	2010	Variance
	(Dollars in millions)					
Net interest income	$ 5,186	$ 4,776	$ 410	$ 15,118	$ 11,772	$ 3,346
Fee and other income	291	304	(13)	793	831	(38)
Net revenues	**$ 5,477**	**$ 5,080**	**$ 397**	**$ 15,911**	**$ 12,603**	**$ 3,308**
Investment gains, net	73	82	(9)	319	271	48
Net other-than-temporary impairments	(262)	(326)	64	(362)	(699)	337
Fair value (losses) gains, net	(4,525)	525	(5,050)	(5,870)	(877)	(4,993)
Administrative expenses	(591)	(730)	139	(1,765)	(2,005)	240
Credit-related expenses(1)	(4,884)	(5,561)	677	(21,985)	(22,296)	311
Other non-interest expenses(2)	(373)	(410)	37	(787)	(1,147)	360

Loss before federal income taxes	(5,085)	(1,340)	(3,745)	(14,539)	(14,150)	(389)
Benefit for federal income taxes		9	(9)	91	67	24
Net loss	**(5,085)**	**(1,331)**	**(3,754)**	**(14,448)**	**(14,083)**	**(365)**
Less: Net income attributable to the noncontrolling interest		(8)	8	(1)	(4)	3
Net loss attributable to Fannie Mae	**$ (5,085)**	**$ (1,339)**	**$ (3,746)**	**$ (14,449)**	**$ (14,087)**	**$ (362)**
Total comprehensive loss attributable to Fannie Mae	$ (5,282)	$ (437)	$ (4,845)	$ (14,463)	$ (10,143)	$ (4,320)

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

(2) Consists of debt extinguishment losses, net and other expenses.

Net Interest Income

Table 8 presents an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we used a daily weighted average of amortized cost. When daily average balance information was not available, such as for mortgage loans, we used monthly averages. Table 9 presents the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities. In the fourth quarter of 2010, we changed the presentation to distinguish the change in net interest income of Fannie Mae from the change in net interest income of consolidated trusts. We have revised the presentation of results for prior periods to conform to the current period presentation.

Table 8: Analysis of Net Interest Income and Yield

	For the Three Months Ended September 30,					
	2011			2010		
	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[(1)]	$ 386,067	$ 3,701	3.83%	$ 408,523	$ 3,859	3.78%
Mortgage loans of consolidated trusts[(1)]	2,598,264	30,633	4.72	2,565,431	32,807	5.12
Total mortgage loans	2,984,331	34,334	4.60	2,973,954	36,666	4.93
Mortgage-related securities	312,482	3,930	5.03	368,886	4,681	5.08
Elimination of Fannie Mae MBS held in portfolio	(199,691)	(2,520)	5.05	(236,355)	(3,120)	5.28
Total mortgage-related securities, net	112,791	1,410	5.00	132,531	1,561	4.71
Non-mortgage securities[(2)]	72,333	24	0.13	102,103	62	0.24
Federal funds sold and securities purchased under agreements to resell or similar arrangements	27,217	7	0.10	14,193	10	0.28
Advances to lenders	3,417	19	2.18	3,643	21	2.26
Total interest-earning assets	$ 3,200,089	$ 35,794	4.47%	$ 3,226,424	$ 38,320	4.75%
Interest-bearing liabilities:						
Short-term debt[(3)]	$ 181,495	$ 63	0.14%	$ 244,823	$ 190	0.30%
Long-term debt	552,191	3,385	2.45	578,775	4,472	3.09
Total short-term and long-term funding debt	733,686	3,448	1.88	823,598	4,662	2.26

Debt securities of consolidated trusts	2,650,256	29,680	4.48	2,624,253	32,002	4.88
Elimination of Fannie Mae MBS held in portfolio	(199,691)	(2,520)	5.05	(236,355)	(3,120)	5.28
Total debt securities of consolidated trusts held by third parties	2,450,565	27,160	4.43	2,387,898	28,882	4.84
Total interest-bearing liabilities	$ 3,184,251	$ 30,608	3.84%	$ 3,211,496	$ 33,544	4.18%
Impact of net non-interest bearing funding	$ 15,838		0.02%	$ 14,928		0.02%
Net interest income/net interest yield		$ 5,186	0.65%		$ 4,776	0.59%
Net interest income/net interest yield of consolidated trusts[4]		$ 953	0.15%		$ 805	0.13%

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	For the Nine Months Ended September 30,					
	2011			2010		
	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[1]	$ 395,686	$ 11,146	3.76%	$ 348,835	$ 11,107	4.25%
Mortgage loans of consolidated trusts[1]	2,601,710	94,111	4.82	2,634,064	100,810	5.10
Total mortgage loans	2,997,396	105,257	4.68	2,982,899	111,917	5.00
Mortgage-related securities	321,979	12,204	5.05	399,890	15,271	5.09
Elimination of Fannie Mae MBS held in portfolio	(206,176)	(7,956)	5.15	(259,740)	(10,306)	5.29
Total mortgage-related securities, net	115,803	4,248	4.89	140,150	4,965	4.72
Non-mortgage securities[2]	76,266	99	0.17	93,548	165	0.23
Federal funds sold and securities purchased under agreements to resell or similar arrangements	20,980	20	0.13	33,849	54	0.21
Advances to lenders	3,548	59	2.19	2,947	57	2.55
Total interest-earning assets	$ 3,213,993	$ 109,683	4.55%	$ 3,253,393	$ 117,158	4.80%
Interest-bearing liabilities:						
Short-term debt[3]	$ 160,961	$ 246	0.20%	$ 221,665	$ 470	0.28%
Long-term debt	591,126	11,383	2.57	574,280	14,528	3.37
Total short-term and long-term funding debt	752,087	11,629	2.06	795,945	14,998	2.51
Debt securities of consolidated trusts	2,652,057	90,892	4.57	2,694,986	100,694	4.98
Elimination of Fannie Mae MBS held in portfolio	(206,176)	(7,956)	5.15	(259,740)	(10,306)	5.29
Total debt securities of consolidated trusts held by third parties	2,445,881	82,936	4.52	2,435,246	90,388	4.95
Total interest-bearing liabilities	$ 3,197,968	$ 94,565	3.94%	$ 3,231,191	$ 105,386	4.35%
Impact of net non-interest bearing funding	$ 16,025		0.02%	$ 22,202		0.03%

Net interest income/net interest yield	$ 15,118	0.63%	$ 11,772	0.48%
Net interest income/net interest yield of consolidated trusts[4]	$ 3,219	0.16%	$ 116	0.01%

Selected benchmark interest rates[5]	As of September 30, 2011	2010
3-month LIBOR	0.37%	0.30%
2-year swap interest rate	0.58	0.60
5-year swap interest rate	1.26	1.51
30-year Fannie Mae MBS par coupon rate	2.96	3.39

(1) Interest income includes interest income on acquired credit-impaired loans of $545 million and $466 million for the three months ended September 30, 2011 and 2010, respectively, and $1.5 billion and $1.6 billion for the nine months ended September 30, 2011 and 2010, respectively. These amounts include accretion income of $288 million and $231 million for the three months ended September 30, 2011 and 2010, respectively, and $769 million and $785 million for the nine months ended September 30, 2011 and 2010, respectively, relating to a portion of the fair value losses recorded upon the acquisition of the loans. Average balance includes loans on nonaccrual status, for which interest income is recognized when collected.

(2) Includes cash equivalents.

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

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

(5) Data from British Bankers Association, Thomson Reuters Indices and Bloomberg L.P.

Table 9: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended September 30, 2011 vs. 2010			For the Nine Months Ended September 30, 2011 vs. 2010		
	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	$ (158)	$ (215)	$ 57	$ 39	$ 1,399	$ (1,360)
Mortgage loans of consolidated trusts	(2,174)	415	(2,589)	(6,699)	(1,226)	(5,473)
Total mortgage loans	(2,332)	200	(2,532)	(6,660)	173	(6,833)
Mortgage-related securities	(751)	(710)	(41)	(3,067)	(2,954)	(113)
Elimination of Fannie Mae MBS held in portfolio	600	467	133	2,350	2,074	276
Total mortgage-related securities, net	(151)	(243)	92	(717)	(880)	163
Non-mortgage securities[2]	(38)	(15)	(23)	(66)	(27)	(39)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(3)	6	(9)	(34)	(17)	(17)
Advances to lenders	(2)	(1)	(1)	2	11	(9)
Total interest income	(2,526)	(53)	(2,473)	(7,475)	(740)	(6,735)
Interest expense:						
Short-term debt	(127)	(40)	(87)	(224)	(111)	(113)
Long-term debt	(1,087)	(198)	(889)	(3,145)	415	(3,560)
Total short-term and long-term funding debt	(1,214)	(238)	(976)	(3,369)	304	(3,673)
Debt securities of consolidated trusts	(2,322)	314	(2,636)	(9,802)	(1,583)	(8,219)
Elimination of Fannie Mae MBS held in portfolio	600	467	133	2,350	2,074	276
Total debt securities of consolidated trusts held by third parties	(1,722)	781	(2,503)	(7,452)	491	(7,943)
Total interest expense	(2,936)	543	(3,479)	(10,821)	795	(11,616)

Net interest income	$ 410	$ (596)	$ 1,006	$ 3,346	$ (1,535)	$ 4,881

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

(2) Includes cash equivalents.

Net interest income increased in the third quarter and first nine months of 2011, as compared with the third quarter and first nine months of 2010, due to lower interest expense on debt, which was partially offset by lower interest income on loans and securities. The primary drivers of these changes were:

a reduction in the interest expense of debt of consolidated trusts driven by a decrease in rates. The rate on debt of consolidated trusts is generally driven by mortgage rates of loans securitized in the MBS, and these mortgage rates declined in 2011.

lower interest expense on funding debt due to lower borrowing rates which allowed us to continue to replace higher-cost debt with lower-cost debt;

lower interest income on mortgage securities due to a decrease in the balance of our mortgage securities, as we continue to manage our portfolio requirements; and

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lower yields on mortgage loans as new business acquisitions continue to replace higher-yielding loans with loans issued at lower mortgage rates. The reduction in interest income on loans due to lower yields was partially offset by a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, due to a decline in the balance of nonaccrual loans in our condensed consolidated balance sheets as we continue to complete a high number of loan modifications and foreclosures.

Additionally, our net interest income and net interest yield were higher than they would have otherwise been in both the third quarter and first nine months of 2011 and 2010 because our debt funding needs were lower than would otherwise have been required as a result of funds we received from Treasury under the senior preferred stock purchase agreement. Further, dividends paid to Treasury are not recognized in interest expense.

Table 10 displays the interest income not recognized for loans on nonaccrual status and the resulting reduction in our total yield from mortgage loans.

Table 10: Impact of Nonaccrual Loans on Net Interest Income

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]
	(Dollars in millions)							
Mortgage loans of Fannie Mae	$ (1,078)		$ (1,512)		$ (3,623)		$ (3,317)	
Mortgage loans of consolidated trusts	(212)		(326)		(690)		(3,393)	
Total mortgage loans	$ (1,290)	(16)bp	$ (1,838)	(23)bp	$ (4,313)	(18)bp	$ (6,710)	(28)bp

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

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

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

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Fair Value (Losses) Gains, Net

Table 11 presents the components of our fair value gains and losses.

Table 11: Fair Value (Losses) Gains, Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	(Dollars in millions)			
Risk management derivatives fair value (losses) gains attributable to:				
Net contractual interest expense accruals on interest rate swaps	$ (497)	$ (673)	$ (1,790)	$ (2,264)
Net change in fair value during the period	(3,570)	732	(3,777)	342
Total risk management derivatives fair value (losses) gains, net	(4,067)	59	(5,567)	(1,922)
Mortgage commitment derivatives fair value losses, net	(188)	(183)	(226)	(1,361)
Total derivatives fair value losses, net	(4,255)	(124)	(5,793)	(3,283)
Trading securities (losses) gains, net	(214)	889	146	2,587
Other, net	(56)	(240)	(223)	(181)
Fair value (losses) gains, net	$ (4,525)	$ 525	$ (5,870)	$ (877)

	2011	**2010**
5-year swap interest rate:		
As of January 1	2.18%	2.98%
As of March 31	2.47	2.73
As of June 30	2.03	2.06
As of September 30	1.26	1.51

Risk Management Derivatives Fair Value Gains (Losses), Net

We supplement our issuance of debt securities with derivative instruments to further reduce duration and prepayment risks. We recorded risk management derivative fair value losses in the third quarter and first nine months of 2011 primarily as a result of a decrease in the fair value of our pay-fixed derivatives due to a significant decline in swap interest rates during the period.

We recorded risk management derivative gains in the third quarter of 2010 primarily due to gains on our foreign currency swaps, which were partially offset by time decay on our purchased options. Gains on our foreign currency swaps generally offset the fair value losses on our foreign currency denominated debt.

We recorded risk management derivative losses in the first nine months of 2010 primarily as a result of: (1) time decay on our purchased options; (2) a decrease in the fair value of our pay-fixed derivatives during the first quarter of 2010 due to a decline in swap interest rates during that period; and (3) a decrease in implied interest rate volatility, which reduced the fair value of our purchased options.

We present, by derivative instrument type, the fair value gains and losses on our derivatives for the three and nine months ended September 30, 2011 and 2010 in Note 9, Derivative Instruments.

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

Commitments to purchase or sell some mortgage-related securities and to purchase single-family mortgage loans are generally accounted for as derivatives. For open mortgage commitment derivatives, we include changes in their fair value in our condensed consolidated statements of operations and comprehensive loss. When derivative purchase commitments settle, we include the fair value of the commitment on the settlement date in the cost basis of the loan or security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases of securities issued by our consolidated MBS trusts are treated as extinguishments of debt; we

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recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses. Sales of securities issued by our consolidated MBS trusts are treated as issuances of consolidated debt; we recognize the fair value of the commitment on the settlement date as a component of debt in the cost basis of the debt issued.

We recognized losses on our mortgage commitments in the third quarter and first nine months of both 2011 and 2010 primarily due to losses on commitments to sell mortgage-related securities as a result of a decline in interest rates during the commitment period.

Trading Securities Gains (Losses), Net

Losses from our trading securities in the third quarter of 2011 were primarily driven by the widening of credit spreads on commercial mortgage-backed securities (CMBS). However, these credit spreads narrowed over the first nine months of 2011, which primarily drove gains on trading securities for the nine-month period.

Gains from our trading securities in the third quarter and first nine months of 2010 were primarily driven by a decrease in interest rates and narrowing of credit spreads on CMBS.

Credit-Related Expenses

We refer to our provision for loan losses and the provision for guaranty losses collectively as our provision for credit losses. Credit-related expenses consist of our provision for credit losses and foreclosed property expense.

Provision for Credit Losses

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

Table 12 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an effective reserve, apart from our total loss reserves, to the extent that we expect to realize credit losses on the acquired loans in the future. We estimate that approximately two-thirds of this amount, as of September 30, 2011, represents credit losses we expect to realize in the future and approximately one-third will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in Credit Loss Performance Metrics.

Table 12: Total Loss Reserves

	As of	
	September 30, 2011	December 31, 2010
	(Dollars in millions)	
Allowance for loan losses	$ 71,435	$ 61,556
Reserve for guaranty losses[1]	916	323
Combined loss reserves	72,351	61,879
Allowance for accrued interest receivable	2,179	3,414
Allowance for preforeclosure property taxes and insurance receivable[2]	1,111	958
Total loss reserves	75,641	66,251
Fair value losses previously recognized on acquired credit impaired loans[3]	16,961	19,171
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$ 92,602	$ 85,422

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

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

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

We refer to our allowance for loan losses and reserve for guaranty losses collectively as our combined loss reserves. We summarize the changes in our combined loss reserves in Table 13.

Table 13: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended September 30,					
	2011			2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$ 55,966	$ 13,540	$ 69,506	$ 42,844	$ 17,738	$ 60,582
Provision for loan losses	(196)	4,355	4,159	2,144	2,552	4,696
Charge-offs(1)(5)	(3,853)	(260)	(4,113)	(5,946)	(1,243)	(7,189)
Recoveries	848	35	883	205	304	509
Transfers(2)	1,770	(1,770)		5,131	(5,131)	
Other(3)	863	137	1,000	895	247	1,142
Ending balance(4)	$ 55,398	$ 16,037	$ 71,435	$ 45,273	$ 14,467	$ 59,740
Reserve for guaranty losses:						
Beginning balance	$ 960	$	$ 960	$ 246	$	$ 246
Provision (benefit) for guaranty losses	(8)		(8)	78		78
Charge-offs	(38)		(38)	(48)		(48)
Recoveries	2		2			
Ending balance	$ 916	$	$ 916	$ 276	$	$ 276
Combined loss reserves:						
Beginning balance	$ 56,926	$ 13,540	$ 70,466	$ 43,090	$ 17,738	$ 60,828
Total provision for credit losses	(204)	4,355	4,151	2,222	2,552	4,774
Charge-offs(1)(5)	(3,891)	(260)	(4,151)	(5,994)	(1,243)	(7,237)
Recoveries	850	35	885	205	304	509
Transfers(2)	1,770	(1,770)		5,131	(5,131)	
Other(3)	863	137	1,000	895	247	1,142
Ending balance(4)	$ 56,314	$ 16,037	$ 72,351	$ 45,549	$ 14,467	$ 60,016

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	For the Nine Months Ended September 30,					
	2011			2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$ 48,530	$ 13,026	$ 61,556	$ 8,078	$ 1,847	$ 9,925
Adoption of new accounting standards					43,576	43,576
Provision for loan losses	10,003	10,545	20,548	11,008	9,922	20,930
Charge-offs(1)(5)	(15,018)	(1,466)	(16,484)	(12,097)	(6,645)	(18,742)
Recoveries	3,197	1,537	4,734	367	872	1,239
Transfers(2)	7,739	(7,739)		41,606	(41,606)	
Other(3)	947	134	1,081	(3,689)	6,501	2,812
Ending balance(4)	$ 55,398	$ 16,037	$ 71,435	$ 45,273	$ 14,467	$ 59,740
Reserve for guaranty losses:						
Beginning balance	$ 323	$	$ 323	$ 54,430	$	$ 54,430
Adoption of new accounting standards				(54,103)		(54,103)
Provision for guaranty losses	694		694	111		111
Charge-offs	(106)		(106)	(165)		(165)
Recoveries	5		5	3		3
Ending balance	$ 916	$	$ 916	$ 276	$	$ 276
Combined loss reserves:						
Beginning balance	$ 48,853	$ 13,026	$ 61,879	$ 62,508	$ 1,847	$ 64,355
Adoption of new accounting standards				(54,103)	43,576	(10,527)
Total provision for credit losses	10,697	10,545	21,242	11,119	9,922	21,041
Charge-offs(1)(5)	(15,124)	(1,466)	(16,590)	(12,262)	(6,645)	(18,907)
Recoveries	3,202	1,537	4,739	370	872	1,242
Transfers(2)	7,739	(7,739)		41,606	(41,606)	
Other(3)	947	134	1,081	(3,689)	6,501	2,812
Ending balance(4)	$ 56,314	$ 16,037	$ 72,351	$ 45,549	$ 14,467	$ 60,016

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	As of September 30, 2011	As of December 31, 2010
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$ 70,741	$ 60,163
Multifamily	1,610	1,716
Total	$ 72,351	$ 61,879
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	2.49%	2.10%
Multifamily	0.83	0.91
Combined loss reserves as a percentage of:		
Total guaranty book of business	2.38%	2.03%
Total nonperforming loans	35.46	28.81

(1) Includes accrued interest of $289 million and $811 million for the three months ended September 30, 2011 and 2010, respectively, and $1.1 billion and $2.0 billion for the nine months ended September 30, 2011 and 2010, respectively.

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

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

(4) Includes $334 million and $397 million as of September 30, 2011 and 2010, respectively, for acquired credit-impaired loans.

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

The continued stress on a broad segment of borrowers from continued high levels of unemployment and underemployment and the prolonged decline in home prices have caused our total loss reserves to remain high for the past few years. Our provision for credit losses continues to be a key driver of our net losses for each period presented. The amount of provision for credit losses varies from period to period based on changes in home prices, borrower payment behavior, the types and volumes of loss mitigation activities completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties.

Our provision for credit losses decreased in the third quarter of 2011 compared with the third quarter of 2010 primarily due to a lower provision on individually impaired loans. The lower provision was driven, in part, by accelerated expected prepayment speeds due to the lower interest rate environment, which reduced the expected lives of loans and increased the present value of cash flows expected on those loans. In addition, our provision decreased in the third quarter of 2011 compared with the third quarter of 2010 because of an increase in estimated amounts due to us or received by us for outstanding repurchase requests. The decrease in the provision for credit losses in the third quarter of 2011 was partially offset by: (1) the implementation of a new accounting standard that increased our troubled debt restructuring (TDR) population, which increased the number of loans that are individually impaired; and (2) a decrease in the estimated recovery amount from mortgage insurance coverage. A TDR is a loan restructuring that grants a concession to a borrower experiencing financial difficulties. For a detailed discussion of our mortgage insurer counterparties and the estimated recovery of mortgage insurance, see Risk Management Credit Risk Management Institutional Counterparty Risk Management Mortgage Insurers.

Our provision for credit losses slightly increased in the first nine months of 2011 compared with the first nine months of 2010. In addition to the reasons described above, our provision for credit losses in the first nine months of 2011 was negatively impacted by higher loss severity rates and an increase in the average number of days loans remain delinquent.

In addition, during the third quarter and first nine months of 2011 and 2010 our provision for credit losses and loss reserves have been impacted by updates to our allowance for loan loss models that we use to estimate our loss reserves. For further information on estimates and assumptions that are used to calculate our loan loss reserves and the impacts of specific changes in estimates during 2010 and the first nine months of 2011, see MD&A Critical Accounting Policies and Estimates in our 2010 Form 10-K and Critical Accounting Policies and Estimates in this report.

Because of the substantial volume of loan modifications we completed and the number of loans that entered a trial modification period in 2010 and the first nine months of 2011, approximately two-thirds of our total loss reserves are attributable to individual impairment rather than the collective reserve for loan losses. Individual impairment for a TDR is based on the restructured loan s expected cash flows over the life of the loan, taking into account the effect of any concessions granted to the borrower, discounted at the loan s original effective interest rate. The individual impairment model includes forward-looking assumptions using multiple scenarios of the future economic environment, including interest rates and home prices. Based on the structure of the modifications, in particular the size of the concession granted, and the performance of modified loans combined with the forward-looking assumptions used in our model, the allowance calculated for an individually impaired loan has generally been greater than the allowance that would be calculated under the collective reserve. Further, if we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure the impairment based on the fair value of the collateral.

In April 2011, the Financial Accounting Standards Board (FASB) issued a new accounting standard regarding TDRs effective for the third quarter of 2011 that applies retrospectively to January 1, 2011. In the third quarter of 2011, we recognized an incremental increase of $514 million in our provision for credit losses due to loans that were reassessed as TDRs upon adoption of the new TDR standard. For additional information on the new TDR accounting standard, see Note 1, Summary of Significant Accounting Policies.

For additional discussion of our loan workout activities, delinquent loans and concentrations, see Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management Problem Loan Management. For a discussion of our charge-offs, see Credit Loss Performance Metrics.

Our balance of nonperforming single-family loans remained high as of September 30, 2011 due to both high levels of delinquencies and an increase in TDRs. When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with the original terms. The composition of our nonperforming loans is shown in Table 14, which is based on the carrying value of both our single-family and multifamily held-for-investment and held-for-sale mortgage loans. For individually impaired loans, the amount displayed is net of any impairment amount. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see Note 3, Mortgage Loans.

Table 14: Nonperforming Single-Family and Multifamily Loans

	As of September 30, 2011	As of December 31, 2010
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 127,178	$ 152,756
Troubled debt restructurings on accrual status[(1)]	76,729	61,907
Total on-balance sheet nonperforming loans	203,907	214,663
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[(2)]	147	89
Total nonperforming loans	$ 204,054	$ 214,752
Accruing on-balance sheet loans past due 90 days or more[(3)]	$ 769	$ 896

	For the Nine Months Ended September 30, 2011	For The Year Ended December 31, 2010
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[(4)]	$ 6,475	$ 8,185
Interest income recognized for the period[(5)]	4,760	7,995

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

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

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

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

(5)

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

Foreclosed Property Expense

Foreclosed property expense is displayed in Table 15. The decrease in foreclosed property expense in the third quarter and first nine months of 2011 compared with the third quarter and first nine months of 2010 was due, in part, to an increase in estimated amounts due to or received by us for outstanding repurchase requests. These amounts were recognized in our provision for credit losses and foreclosed property expense. In addition, we recorded lower valuation adjustments on our acquired property inventory in the third quarter and first nine months of 2011 because: (1) the rate of decline in home prices has moderated in recent quarters; and (2) the decrease in our REO inventory compared with the third quarter and first nine months of 2010 resulted in fewer properties subject to valuation adjustments. The decrease in foreclosed property expense was partially offset by a decrease in the estimated recovery amount from mortgage insurance coverage.

Foreclosed property expense in the first nine months of 2010 reflected the recognition of cash fees of $796 million from the cancellation and restructuring of some of our pool mortgage insurance coverage. The cancelled and restructured policies covered approximately $42 billion in unpaid principal balance. The fees represented an acceleration of, and discount on, claims expected to be received pursuant to the coverage net of premiums expected to be paid. These cancellations and restructurings resulted in operational savings from

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reduced claims processing and mitigated our counterparty credit risk given the weakened financial condition of our mortgage insurer counterparties.

Credit Loss Performance Metrics

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

Historically, management viewed our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as indicators of the effectiveness of our credit risk management strategies. As our credit losses are now at such high levels, management has shifted focus to our loss mitigation strategies and the reduction of our total credit losses and away from the credit loss ratio to measure performance. However, we believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 15 details the components of our credit loss performance metrics as well as our average single-family and multifamily default rate and initial charge-off severity rate.

Table 15: Credit Loss Performance Metrics

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)(2)
	(Dollars in millions)							
Charge-offs, net of recoveries	$ 3,266	42.8bp	$ 6,728	88.4bp	$ 11,851	51.6bp	$ 17,665	76.9bp
Foreclosed property expense	733	9.6	787	10.3	743	3.2	1,255	5.5
Credit losses including the effect of fair value losses on acquired credit-impaired loans	3,999	52.4	7,515	98.7	12,594	54.8	18,920	82.4
Less: Fair value losses resulting from acquired credit-impaired loans	(31)	(0.4)	(41)	(0.5)	(93)	(0.4)	(146)	(0.6)
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense	492	6.5	750	9.9	1,577	6.9	1,642	7.1
Credit losses and credit loss ratio	$ 4,460	58.5bp	$ 8,224	108.1bp	$ 14,078	61.3bp	$ 20,416	88.9bp
Credit losses attributable to:								
Single-family	$ 4,384		$ 8,037		$ 13,798		$ 20,022	
Multifamily	76		187		280		394	
Total	$ 4,460		$ 8,224		$ 14,078		$ 20,416	
Average single-family default rate		0.44%		0.63%		1.34%		1.63%
Average single-family		34.20%		33.30%		35.00%		34.20%

initial charge-off severity rate[3]				
Average multifamily default rate	0.08%	0.24%	0.38%	0.48%
Average multifamily initial charge-off severity rate[3]	32.49%	39.31%	35.40%	39.63%

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

(2) Beginning in the second quarter of 2010, expenses relating to preforeclosure taxes and insurance were recorded as charge-offs. These expenses were recorded as foreclosed property expense in the first quarter of 2010. The impact of including these costs in charge-offs was 4.6 basis points for the nine months ended September 30, 2010.

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

The decrease in our credit losses in the third quarter and first nine months of 2011 compared with the third quarter and first nine months of 2010 was driven by a decrease in net charge-offs primarily due to a decrease in the number of defaults and an increase in estimated amounts due to or received by us related to outstanding repurchase requests. While charge-offs remain high, charge-offs in the third quarter and first nine months of 2011 were lower than they otherwise would have been due to delays in the foreclosure process.

Our 2009, 2010 and 2011 vintages accounted for approximately 3% of our single-family credit losses for the third quarter of 2011 and 2% of our single-family credit losses for the first nine months of 2011. Typically, credit losses on mortgage loans do not peak until later years in the loan cycle following origination. We provide more detailed credit performance information, including serious delinquency rates by geographic region, statistics on nonperforming loans and foreclosure activity in Risk Management Credit Risk Management Mortgage Credit Risk Management.

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA s predecessor, the Office of Federal Housing Enterprise Oversight, we are required to disclose on a quarterly basis the present value of the change in future expected

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

Table 16 compares the credit loss sensitivities for the periods indicated for first lien single-family whole loans we own or that back Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 16: Single-Family Credit Loss Sensitivity[1]

	As of September 30, 2011	As of December 31, 2010
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 22,925	$ 25,937
Less: Projected credit risk sharing proceeds	(1,907)	(2,771)
Net single-family credit loss sensitivity	$ 21,018	$ 23,166
Outstanding single-family whole loans and loans underlying Fannie Mae MBS	$ 2,764,981	$ 2,782,512
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.76%	0.83%

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 97% of our total single-family guaranty book of business as of September 30, 2011 and December 31, 2010, respectively. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

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

Financial Impact of the Making Home Affordable Program on Fannie Mae

Home Affordable Refinance Program

Because we already own or guarantee the original mortgages that we refinance under HARP, our expenses under that program have consisted mostly of limited administrative costs. However, under recently announced changes to HARP we may incur additional losses. See Legislative and Regulatory Developments, for a discussion on the recent changes to HARP.

Home Affordable Modification Program

We reduced our individually impaired allowance that relates to loans that had entered a trial modification under the Home Affordable Modification Program (HAMP) by $906 million during the third quarter of 2011 compared with impairments of $2.0 billion during the third quarter of 2010. Loans receiving a trial modification under HAMP are accounted for as TDRs and assessed individually for impairment. The reduction of our

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allowance on HAMP loans in the third quarter of 2011 was due to improved cash flow projections on existing HAMP loans, which more than offset the volume of new HAMP trial modifications during the period. We incurred impairments related to loans that had entered a trial modification under HAMP of $4.3 billion during the first nine months of 2011, compared with $11.8 billion during the first nine months of 2010. These include impairments on loans that entered into a trial modification under the program but that have not yet received, or that have been determined to be ineligible for, a permanent modification under the program. These impairments have been included in the calculation of our provision for loan losses in our condensed consolidated results of operations and comprehensive loss. The impairments do not include the reduction in our collective loss reserves which occurred as a result of beginning to individually assess the loan for impairment upon entering a trial modification. Please see MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae in our 2010 Form 10-K for a more detailed discussion on these impairments.

We paid or accrued HAMP incentive fees for servicers of $86 million during the third quarter of 2011 compared with $93 million during the third quarter of 2010. We paid or accrued HAMP incentive fees for servicers of $254 million during the first nine months of 2011, compared with $276 million during the first nine months of 2010. These fees were related to loans modified under HAMP, which we recorded as part of Other expenses. Borrower incentive payments are included in the calculation of our allowance for loan losses for individually impaired loans. Additionally, our expenses under HAMP also include administrative costs.

Overall Impact of the Making Home Affordable Program

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

BUSINESS SEGMENT RESULTS

Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our condensed consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in our 2010 Form 10-K in Notes to Consolidated Financial Statements Note 15, Segment Reporting. We are working on reorganizing our company by function rather than by business in order to improve our operational efficiencies and effectiveness. In future periods, we may change some of our management reporting and how we report our business segment results.

In this section, we summarize our segment results for the third quarter and first nine months of 2011 and 2010 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our condensed consolidated results of operations in Consolidated Results of Operations. See Note 10, Segment Reporting of this report for a reconciliation of our segment results to our condensed consolidated results.

Single-Family Business Results

Table 17 summarizes the financial results of our Single-Family business for the periods indicated. The primary sources of revenue for our Single-Family business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses, net interest loss and administrative expenses.

Table 17: Single-Family Business Results

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	Variance	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010	Variance
	(Dollars in millions)					
Net interest loss	$ (374)	$ (1,108)	$ 734	$ (1,952)	$ (4,438)	$ 2,486
Guaranty fee income[1]	1,867	1,804	63	5,618	5,367	251
Credit-related expenses[2]	(4,782)	(5,559)	777	(21,821)	(22,356)	535
Other expenses[3]	(456)	(592)	136	(1,414)	(1,713)	299
Loss before federal income taxes	(3,745)	(5,455)	1,710	(19,569)	(23,140)	3,571
(Provision) benefit for federal income taxes	(1)	1	(2)	106	53	53
Net loss attributable to Fannie Mae	$ (3,746)	$ (5,454)	$ 1,708	$ (19,463)	$ (23,087)	$ 3,624
Single-family effective guaranty fee rate (in basis points)[4]	26.1	25.2		26.1	24.9	
Single-family average charged guaranty fee on new acquisitions (in basis points)[5]	31.1	25.3		29.0	26.4	
Average single-family guaranty book of business[6]	$ 2,859,814	$ 2,857,917		$ 2,870,557	$ 2,875,952	
Single-family Fannie Mae MBS issues[7]	$ 111,808	$ 155,940		$ 381,135	$ 391,754	

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

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

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

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

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

expressed in basis points.

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

(7) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period. Includes Housing Finance Agency (HFA) new issue bond program issuances, none of which occurred in 2011. There were HFA new issue bond program issuances of $3.1 billion in the first nine months of 2010, of which none occurred in the third quarter of 2010.

Net Interest Loss

Net interest loss for the Single-Family business segment primarily consists of: (1) the cost to reimburse the Capital Markets group for interest income not recognized for loans in our mortgage portfolio on nonaccrual status; (2) the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status; and (3) income from cash payments received on loans that have been placed on nonaccrual status.

Net interest loss decreased in the third quarter and first nine months of 2011 compared with the third quarter and first nine months of 2010 primarily due to a significant decrease in interest income not recognized for loans on nonaccrual status because of a decline in the total number of loans on nonaccrual status. This decline is due to loan workouts and foreclosures since the third quarter of 2010.

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Guaranty Fee Income

Guaranty fee income increased in the third quarter and first nine months of 2011 compared with the third quarter and first nine months of 2010 due to an increase in the amortization of risk based pricing adjustments, reflecting the impact of higher risk based pricing associated with our more recent acquisition vintages.

Our average single-family guaranty book of business was relatively flat period over period despite our continued high market share because of the decline in U.S. residential mortgage debt outstanding, which is primarily due to foreclosures. Our estimated market share of new single-family mortgage-related securities issuances, which is based on publicly available data and excludes previously securitized mortgages, remained high at 43.3% for the third quarter and 45.5% for the first nine months of 2011.

Credit-Related Expenses

Credit-related expenses and credit losses in the Single-Family business represent the substantial majority of our consolidated totals. We provide a discussion of our credit-related expenses and credit losses in Consolidated Results of Operations Credit-Related Expenses.

Multifamily Business Results

Table 18 summarizes the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income. Expenses and other items that impact income or loss primarily include credit-related expenses, administrative expenses and net operating losses from our partnership investments.

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Table 18: Multifamily Business Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2011	**2010**	**Variance**	**2011**	**2010**	**Variance**
			(Dollars in millions)			
Guaranty fee income[1]	$ 226	$ 205	$ 21	$ 651	$ 594	$ 57
Fee and other income	51	35	16	166	98	68
(Losses) gains from partnership investments[2]	(30)	39	(69)	(8)	(41)	