FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 14, 2019

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

Form 10-K

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

For the fiscal year ended December 31, 2018

Commission file number: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**	**1100 15th Street, NW Washington, DC 20005**	**(800) 2FANNIE (800-232-6643)**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*	*(Address of principal executive offices, including zip code)*	*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value $50 per share
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share
6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share
Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share
5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10 K. þ

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTCQB, operated by OTC Markets Group, Inc., on June 29, 2018 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $1.6 billion.

As of January 31, 2019, there were 1,158,087,567 shares of common stock of the registrant outstanding.

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PART I

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since provided for the exercise of certain authorities by our Board of Directors. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.
We do not know when or how the conservatorship will terminate, what further changes to our business will be made during or following conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated or whether we will continue to exist following conservatorship. Congress and the Administration continue to consider options for reform of the housing finance system, including Fannie Mae.
We are not permitted to retain more than $3.0 billion in capital reserves or to pay dividends or other distributions to stockholders other than the U.S. Department of the Treasury ("Treasury"). Our agreements with Treasury include covenants that significantly restrict our business activities. For additional information on the conservatorship, the uncertainty of our future, our agreements with Treasury, and recent actions and statements relating to housing finance reform by the Administration, Congress and FHFA, see "Conservatorship, Treasury Agreements and Housing Finance Reform," "Charter Act and Regulation" and "Risk Factors."

Forward-looking statements in this report are based on management's current expectations and are subject to significant uncertainties and changes in circumstances, as we describe in "Business—Forward-Looking Statements." Future events and our future results may differ materially from those reflected in our forward-looking statements due to a variety of factors, including those discussed in "Risk Factors" and elsewhere in this report.

You can find a "Glossary of Terms Used in ThisReport" in "Management's Discussion and Analysis of Financial Condition and Results of Operations ('MD&A')."

Item 1. Business

Introduction

Fannie Mae provides a stable source of liquidity to the mortgage market and supports the availability and affordability of housing in the United States. We operate in the secondary mortgage market, primarily working with lenders. We do not originate loans or lend money directly to consumers in the primary mortgage market. Instead, we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee (which we refer to as Fannie Mae MBS or our MBS); purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date; manage mortgage credit risk; and engage in other activities that support the supply of affordable housing. Through our single-family and multifamily business segments, we provided $512 billion in liquidity to the mortgage market in 2018, which enabled the financing of approximately 3 million home purchases, refinancings or rental units.

Fannie Mae Provided $512 Billion in Liquidity in 2018

Executive Summary

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2018 and related notes to the consolidated financial statements.

Summary of Our Financial Performance

Consolidated Results

(Dollars in billions)

(1) Net revenues consist of net interest income and fee and other income.

2017 vs. 2016

The decrease in our net income in 2017 compared with 2016 was primarily driven by:

- a $9.9 billion one-time federal income tax charge resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act") that drove the remeasurement of our deferred tax assets using the lower corporate tax rate enacted in the fourth quarter of 2017.

The increase in our pre-tax income in 2017 compared with 2016 was primarily driven by:

- higher net revenues due to $975 million of income resulting from a settlement agreement in 2017 resolving legal claims related to private-label securities we purchased.

2018 vs. 2017

The increase in our net income in 2018 compared with 2017 was primarily driven by a reduction in our provision for federal income taxes in 2018 due to:

- the absence of the $9.9 billion one-time tax charge for federal income taxes recorded in 2017; and
- the lower corporate tax rate in effect as a result of the Tax Act.

The increase in our pre-tax income in 2018 compared with 2017 was primarily driven by:

- a shift to fair value gains from fair value losses;
- an increase in credit-related income;
- partially offset by a decrease in fee and other income.

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See “MD&A—Consolidated Results of Operations” for more information on our financial results.

Net Worth. Our net worth of $6.2 billion as of December 31, 2018 reflects our comprehensive income of $3.2 billion for the fourth quarter of 2018 and $3.0 billion in retained capital reserves.

Financial Performance Outlook

We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors could result in significant volatility in our financial results from quarter to quarter or year to year. We expect quarterly volatility in our financial results due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of our derivatives and other financial instruments that we mark to market through our earnings. Other factors that may result in volatility in our quarterly financial results include developments that affect our loss reserves, such as redesignations of loans from held for investment (“HFI”) to held for sale (“HFS”), changes in interest rates, home prices or accounting standards, or events such as natural disasters, and other factors, as we discuss in “Risk Factors” and “MD&A—Consolidated Results of Operations—Credit-Related Income (Expense).”

The potential for significant volatility in our financial results could result in a net loss in a future quarter. We are permitted to retain up to $3.0 billion in capital reserves as a buffer in the event of a net loss in a future quarter. However, any net loss we experience in the future could be greater than the amount of our capital reserves, resulting in a net worth deficit for that quarter. If we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. See “Risk Factors” for a discussion of the risks associated with the limitations on our ability to rebuild our capital reserves, including factors that could result in a net loss or net worth deficit in a future quarter.

Treasury Draws and Dividend Payments

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

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

Treasury Draws and Dividend Payments: 2008 - 2018
(Dollars in billions)

(1) Under the terms of the senior preferred stock purchase agreement, dividend payments we make to Treasury do not offset our prior draws of funds from Treasury. Amounts may not sum due to rounding.

(2) Treasury draws are shown in the period for which requested, not when the funds were received by us. Draw requests have been funded in the quarter following a net worth deficit.

We expect to pay Treasury a first quarter 2019 dividend of $3.2 billion by March 31, 2019. The senior preferred stock currently provides for dividends each quarter in the amount, if any, by which our net worth as of the end of the prior quarter exceeds a $3.0 billion capital reserve amount.

As of the date of this filing, the maximum amount of remaining funding under the agreement is $113.9 billion. If we were to draw additional funds from Treasury under the agreement with respect to a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, see “Conservatorship, Treasury Agreements and Housing Finance Reform—Treasury Agreements.”

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

Our Strategic Objectives

Our vision is to be America’s most valued housing partner and to provide liquidity, access to credit and affordability in all U.S. housing markets at all times, while effectively managing risk. We are advancing this vision by pursuing four strategic objectives:

- advancing a sustainable and reliable business model with low risk to the housing finance system and taxpayers;
- providing great service to our customers and partners, enabling them to serve the needs of American households more effectively;
- supporting and sustainably increasing access to credit and affordable housing; and
- building a simple, efficient, innovative and continuously improving company.

We believe pursuing these strategic objectives will position us to compete effectively in a diverse and rapidly changing housing finance market in the years ahead.

Advancing a sustainable and reliable business model with low risk to the housing finance system and taxpayers

We have significantly changed our business model over the last decade in ways that reduce risks for the housing system and taxpayers. After strengthening our underwriting and eligibility standards, we developed innovative credit risk transfer programs, and we now transfer a portion of the credit risk on our guaranty book of business to private investors. We have also transitioned from a portfolio-driven business to a guaranty-driven business. Taken together, these changes affect how we manage credit risk, market risk, and liquidity and funding risk, and they have transformed our business model into one that focuses Fannie Mae’s efforts on safely delivering the value of our risk management expertise to our customers, to taxpayers, and to the housing system as a whole.

Strong underwriting and eligibility standards

Our underwriting and eligibility standards have significantly improved the credit quality of our single-family guaranty book of business during the last decade. Combined with improvement in the overall economy, including strong home price growth and reduced levels of unemployment, our strong underwriting and eligibility standards have driven substantial improvement in our credit performance during the last decade. Our single-family serious delinquency rate decreased in 2018, primarily driven by improved loan payment performance and nonperforming loan sales, after increasing in 2017 due to Hurricanes Harvey, Irma and Maria (the “2017 hurricanes”). With the exception of 2017, our single-family serious delinquency rate has decreased in each of the last nine years.

Single-Family Serious Delinquency Rate[1]

(1) Calculated as of December 31 for each year shown, based on the number of single-family conventional loans that are 90 days or more 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.

Transferring mortgage credit risk

We continue to innovate and improve our credit risk transfer programs, expanding the types of loans covered and promoting the continued growth of the credit risk transfer market. For single-family mortgages, we have relied principally on two types of transactions to transfer credit risk: our Connecticut Avenue Securities® (“CAS”) transactions and our Credit Insurance Risk Transfer™ (“CIRT™”) transactions. In these transactions, we transfer to investors a portion of the credit risk associated with losses on a reference pool of mortgage loans. In November 2018, we completed our first CAS offering under a new Real Estate Mortgage Investment Conduit (“REMIC”) structure. This new structure is designed to promote the continued growth of the market by expanding the potential investor base for these securities and limiting investor exposure to Fannie Mae counterparty risk, without disrupting the “To-Be-Announced” (“TBA”) MBS market. The new structure will also align the timing of our recognition of provisions for credit losses with the related recovery from CAS REMIC™ transactions. While our Multifamily business has for many years used a shared-risk business model through our Delegated Underwriting and Servicing (“DUS®”) program, we are also transferring multifamily mortgage credit risk beyond our DUS program. In 2018, we completed our third and fourth multifamily CIRT transactions since the inception of the program, and we expect to continue to expand this program and explore additional programs for transferring multifamily mortgage credit risk. See “Managing Mortgage Credit Risk,” “MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management” and “MD&A—Multifamily Business—Multifamily Mortgage Credit Risk Management” for more information on how we manage credit risk in our guaranty book of business.

A guaranty-driven business

We have two primary sources of revenues:

- guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and

- the difference between interest income earned on the assets in our retained mortgage portfolio and our other investments portfolio (collectively, our "portfolios") and the interest expense associated with the debt that funds those assets. Our retained mortgage portfolio, which we discuss in "MD&A—Retained Mortgage Portfolio," refers to the mortgage-related assets we own (excluding the portion of assets that back mortgage-related securities owned by third parties), including assets we use to provide liquidity to the mortgage markets and for our loss mitigation efforts.

Both of these sources of revenues are recorded as net interest income in our consolidated financial statements.

More than 75% of our 2018 net interest income was derived from the loans underlying our Fannie Mae MBS in consolidated trusts, which primarily generate income through guaranty fees. The chart below shows the portion of our net interest income derived from guaranty fees compared with the portion derived from assets in our portfolios.

Sources of Net Interest Income and Retained Mortgage Portfolio Balance

(Dollars in billions)

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

Common securitization platform and Single Security Initiative

Our business also continues to evolve as a result of our many other efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. These efforts include our work with Freddie Mac, our jointly owned limited liability company, Common Securitization Solutions, LLC ("CSS"), and FHFA to develop a common securitization platform that, starting in 2019, we expect to use to perform certain aspects of the securitization process. We are also working with Freddie Mac, CSS and FHFA on the "Single Security Initiative" to develop and implement a uniform mortgage-backed security for Fannie Mae and Freddie Mac. The common securitization platform and the Single Security Initiative represent significant changes for the mortgage market and for our securitization operations and business. See "Mortgage Securitizations—Common Securitization Platform and Single Security Initiative" and "Risk Factors—GSE and Conservatorship Risk" for more information on these efforts and the risks they present. See "Conservatorship, Treasury Agreements and Housing Finance Reform—Housing Finance Reform—Conservator Developments and Strategic Goals" for more information on FHFA's strategic goals for our conservatorship.

Providing great service to our customers and partners, enabling them to serve the needs of American households more effectively

We achieve our mission through our customers. Responding to and anticipating the changing needs of our mortgage lender and servicer customers with products, services and tools that offer greater speed, efficiency and effectiveness is a core part of our strategy. In 2018, we continued to make improvements to our business processes and policies to serve our customers better and enhance the value they can deliver to borrowers. We continue to work towards our goal of a digital mortgage process that meaningfully reduces the time, cost and risk of originating and servicing mortgage loans. In addition to providing value to our customers, we believe these improvements will encourage lenders to safely expand their lending to a wider range of qualified borrowers. We also continue to work on enhancing our customers' day-to-day experience in doing business with us.

We believe our investments in an improved customer experience will provide us with not only a competitive advantage, but also allow us to collaborate with customers more effectively on long-term efforts to create new solutions to serve a continuously changing housing finance market.

Supporting and sustainably increasing access to credit and affordable housing

We have a mission to provide liquidity and promote stability and affordability in the residential mortgage market. This mission includes promoting access to mortgage credit throughout the nation. We are focused on supporting sustainable access to credit and affordable housing, within our risk tolerance. Market forces in recent years have contributed to an overall decline in the supply of affordable housing for both single-family homes and multifamily rental housing. We are working on multiple fronts to help address housing affordability issues. For example:

- *Serving underserved markets.* We began implementing our Duty to Serve plan in January 2018, which incorporates innovative solutions to expand our reach into three underserved markets: manufactured housing; affordable housing preservation; and rural housing.
- *Providing liquidity through our activities.* We continue to support housing affordability through our purchases of loans to meet our single-family and multifamily housing goals. In addition, in 2018 our Multifamily business resumed investing in low income housing tax credit ("LIHTC") projects to help support and preserve the supply of affordable housing.
- *Financing programs to address affordable housing supply and barriers to homeownership.* We are working with some customers and other partners to develop and test financing programs that could spur the development of more affordable housing supply and help borrowers prudently overcome barriers to homeownership.
- *Advancing sustainable, healthy communities.* Through our Sustainable Communities Initiative, we are working with partners to find new ways to increase, improve and preserve the supply of affordable housing through the advancement of sustainable, healthy communities.
- *Collaboration to reduce cost of producing and maintaining housing.* We have initiated a number of collaborations with participants in the housing industry to find ways housing can be produced and maintained with lower costs, with a focus on cost reductions that our secondary market role could help enable.
- *Macroeconomic and housing research. We* are working to understand and help educate the market about a variety of related macroeconomic and housing issues, including the effect that inadequate new home production in the current expansion has in limiting housing affordability, particularly for low- and moderate-income borrowers.

See "Charter Act and Regulation—Charter Act" for more information about our mission.

Building a simple, efficient, innovative and continuously improving company

With the goal of making Fannie Mae more competitive and responsive to changing market conditions and customer expectations, we continue to work on internal, multiyear initiatives to make our organization simpler, more efficient and more innovative. For example, we made significant progress in 2018 on a number of strategic projects to improve our technology infrastructure, including projects aimed at simplifying the customer experience and improving our data infrastructure. We also continued to implement plans designed to improve the effectiveness of our organization, including continuing to increase the percentage of our workforce using our Way of Working management system, which is based on lean management principles and techniques.

Mortgage Securitizations

We support market liquidity by issuing Fannie Mae MBS that are readily traded in the capital markets. We create Fannie Mae MBS by placing mortgage loans in a trust and issuing securities that are backed by those mortgage loans. Monthly payments received on the loans are the primary source of payments passed through to Fannie Mae MBS holders. We guarantee to the

MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) the three broad categories of our securitization transactions; (2) features of our MBS trusts; (3) single-class and multi-class Fannie Mae MBS and (4) our work to develop a common securitization platform and a uniform mortgage-backed security.

Securitization Transactions

We currently securitize a substantial majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within three broad categories: lender swap transactions, portfolio securitizations, and structured securitizations.

Lender Swap Transactions

Our most common type of securitization transaction is our "lender swap transaction." In a single-family lender swap transaction, a mortgage lender that operates in the primary mortgage market generally delivers a pool of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. Lenders may hold the Fannie Mae MBS they receive from us or sell them to investors. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust for which we serve as trustee. This trust is established for the sole purpose of holding the mortgage loans separate and apart from our corporate assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We are entitled to a portion of the interest payment as a fee for providing our guaranty. The mortgage servicer also retains a portion of the interest payment as a fee for servicing the loan. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

Lender Swap Transaction

Our Multifamily business generally creates multifamily Fannie Mae MBS in lender swap transactions in a manner similar to our Single-Family business. Our multifamily lender customers typically deliver only one mortgage loan to back each multifamily Fannie Mae MBS. The characteristics of each mortgage loan are used to establish guaranty fees on a risk-adjusted basis. Securitizing a multifamily mortgage loan into a Fannie Mae MBS facilitates its sale into the secondary market.

Portfolio Securitization Transactions

In contrast to our lender swap securitizations, in which a mortgage lender delivers a pool of mortgage loans to us that we immediately place in a trust for securitization, we also purchase mortgage loans and mortgage-related securities for securitization and sale at a later date through our "portfolio securitization transactions." Most of our portfolio securitization transactions are driven by our single-family whole loan conduit activities, pursuant to which we purchase single-family whole loans from a large group of typically smaller lenders principally for the purpose of securitizing the loans into Fannie Mae MBS, which may then be sold to dealers and investors. We also securitize loans that have been held in our portfolio for a longer period of time, including reperforming loans. Reperforming loans are mortgage loans on which the borrower had previously been delinquent but subsequently became current, either with or without a modification.

Portfolio Securitization Transaction

Structured Securitization Transactions

In a "structured securitization transaction," we create structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer "swaps" a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. The process for issuing Fannie Mae MBS in a structured securitization is similar to the process involved in our lender swap securitizations described above.

We also issue structured transactions backed by multifamily Fannie Mae MBS through the Fannie Mae Guaranteed Multifamily Structures ("Fannie Mae GeMS™") program, which provides additional liquidity and stability to the multifamily market, while expanding the investor base for multifamily Fannie Mae MBS.

Features of Our MBS Trusts

Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Generally, each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the "trust documents" that govern an individual MBS trust.

Single-Class and Multi-Class Fannie Mae MBS

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

Common Securitization Platform and Single Security Initiative

In pursuit of the strategic goals identified by our conservator, for the past several years we have been working with FHFA, Freddie Mac and CSS on the development of a common securitization platform that we expect to use beginning in 2019 to perform certain aspects of the securitization process. We have also been working on developing and implementing a single-family uniform mortgage-backed security for Fannie Mae and Freddie Mac.

Common Securitization Platform

The intended purpose of the common securitization platform, which is operated by CSS, is to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In addition, FHFA specified that the design of the common securitization platform should allow for the integration of additional market participants in the future.

While Fannie Mae and Freddie Mac each fund CSS and each appoint two managers to the CSS Board of Managers, CSS operates as a company separate from us and Freddie Mac. Freddie Mac began using the common securitization platform for some activities relating to the issuance of its current single-class fixed-rate mortgage-backed securities in November 2016. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform in support of the initial issuance of the single security expected in June 2019.

Single Security Initiative

The uniform mortgage-backed security, which we, Freddie Mac and FHFA have been working on since 2014, is intended to maximize liquidity for both Fannie Mae and Freddie Mac mortgage-backed securities in the TBA market. In March 2018, FHFA announced that Fannie Mae and Freddie Mac will start issuing these uniform mortgage-backed securities, or "UMBS," on June 3, 2019. FHFA has determined that the following features will apply to these securities:

- Fannie Mae and Freddie Mac will each issue and guarantee UMBS directly backed by mortgage loans it has acquired, referred to as first-level securities, and will not cross-guarantee each other's first-level securities;
- mortgage loans backing first-level uniform mortgage-backed securities will be limited to fixed-rate mortgage loans now eligible for financing through the TBA market;
- Fannie Mae and Freddie Mac will each be able to issue and guarantee second-level securities, also referred to as resecuritizations, backed by first- or second-level UMBS issued by either company;
- key features of the new uniform mortgage-backed security will be the same as those of the current Fannie Mae MBS;
- the loan- and security-level disclosures for uniform mortgage-backed securities will closely resemble those of Freddie Mac participation certificates ("Freddie Mac PCs"); and
- investors in Freddie Mac PCs will have the option to exchange legacy Freddie Mac PCs for comparable uniform mortgage-backed securities backed by the same mortgage loans; there will not be an exchange option for legacy Fannie Mae MBS because FHFA expects investors to treat them as fungible with the uniform mortgage-backed securities.

Once UMBS are issued, lender customers, securities dealers and other investors will be able to swap UMBS issued by either Fannie Mae or Freddie Mac for a new form of structured security issued and guaranteed by Fannie Mae (to be called "Supers") that combines collateral and provides Fannie Mae's guaranty of principal and interest on the underlying UMBS, even if that UMBS was not issued by Fannie Mae. We expect that once we begin issuing UMBS, the vast majority of our single-family MBS will be issued as UMBS.

Historically, Fannie Mae MBS had a trading advantage over comparable Freddie Mac PCs. One of FHFA's stated objectives for the Single Security Initiative is to reduce the costs to Freddie Mac and taxpayers that result from differences in liquidity of Fannie Mae MBS and Freddie Mac PCs. In the last couple of years, as the implementation date of the Single Security Initiative has drawn closer, Fannie Mae MBS and comparable Freddie Mac PCs have been trading at or near parity. See "Risk Factors" for a discussion of the risks to our business associated with the Single Security Initiative.

Managing Mortgage Credit Risk

We facilitate the flow of global capital into the U.S. mortgage market by assuming and managing credit risk. Accordingly, effective credit risk management is a key component of our overall operations. Our single-family and multifamily businesses have built a comprehensive approach to credit risk management with end-to-end processes.

Our single-family credit risk management strategy includes acquisition and servicing policies, underwriting and servicing standards, portfolio diversification and monitoring, problem loan and real estate owned ("REO") management, and the transfer of credit risk through credit enhancements including risk transfer transactions.

The Federal National Mortgage Association Charter Act, which we refer to as the Charter Act or our charter, requires that we obtain credit enhancements on our single-family conventional mortgage loans that have loan-to-value ("LTV") ratios over 80% when we acquire them. We use several types of credit enhancements, including primary mortgage insurance and pool mortgage insurance.

In addition, our Single-Family business has developed risk-sharing capabilities to obtain credit enhancement by transferring portions of our single-family mortgage credit risk to the private market. In most of our credit risk transfer transactions, investors receive payments, which effectively reduce the guaranty fee income we retain on the loans. In exchange we transfer to investors a small portion of our expected losses and a significant portion of the losses we expect we would incur in a stressed credit environment, such as a severe or prolonged downturn.

The chart below displays the percentage of loans in our single-family guaranty book of business, measured by unpaid principal balance, that are covered by one or more forms of credit enhancement, including mortgage insurance or a credit risk transfer transaction.

Single-Family Guaranty Book of Business with Credit Enhancement

The portion of our single-family guaranty book of business without credit enhancement consists mostly of:

- loans that did not require credit enhancement at the time we acquired them because they had LTV ratios below 80%;
- loans we acquired before the inception of or too recently to be included in our CAS or CIRT programs; and
- loans that are not in our current target population for credit risk transfer transactions because they have lower LTV ratios, are intermediate-term or adjustable-rate mortgages, or were acquired under our former Refi Plus™ refinancing initiative for borrowers with high LTV ratios due to declines in home prices.

We will continue to transfer more credit risk to investors in future years. See "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management" for more information on credit enhancements on our single-family loans, including our target criteria for including loans in a credit risk transfer transaction, and how we manage credit risk in our single-family guaranty book.

Our Multifamily business uses a shared-risk business model that distributes credit risk to the private markets, primarily through our DUS program, which was initiated in 1988. Under DUS, we delegate to lenders the ability to underwrite multifamily loans in accordance with our standards and requirements, and our DUS lenders typically share with us approximately one-third of the credit risk on these loans, aligning the interests of lenders and Fannie Mae from day one. We also transfer multifamily mortgage credit risk outside of our DUS program, including through multifamily CIRT transactions. We expect to expand our multifamily CIRT program and explore additional programs for transferring multifamily credit risk. As of December 31, 2018, 98% of the unpaid principal balance of loans in our multifamily guaranty book of business had lender risk-sharing, compared with 96% as of December 31, 2017. See "MD&A—Multifamily Business—Multifamily Mortgage Credit Risk Management" for more information on how we manage credit risk in our multifamily guaranty book.

Conservatorship, Treasury Agreements and Housing Finance Reform

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator, pursuant to authority provided by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, including by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve our assets and property and put the company in a sound and solvent condition.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, how long we will be in conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated, and whether we will continue to exist following conservatorship. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our company and business, as well as the adverse effects of the conservatorship on the rights of holders of our common and preferred stock, see "Risk Factors."

Our conservatorship could terminate through a receivership. For information on the circumstances under which FHFA is required or permitted to place us into receivership and the potential consequences of receivership, see "Charter Act and Regulation—GSE Act and Other Regulation—Receivership" and "Risk Factors."

Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently issued an order that provided for our Board of Directors to exercise specified authorities. The conservator also provided instructions regarding matters for which conservator decision or notification is required. The conservator retains the authority to amend or withdraw its order and instructions at any time. For more information on the authorities of our Board of Directors during conservatorship, see "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Board Authorities."

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

Because we are in conservatorship, our common stockholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship.

Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. However, mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, pursuant to which we issued to Treasury one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and a warrant to purchase shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised for a nominal price.

The senior preferred stock purchase agreement was amended and restated on September 26, 2008 and was subsequently amended three times: in May 2009, December 2009 and August 2012. In addition, the dividend and liquidation preference provisions of the senior preferred stock were amended in December 2017 pursuant to a letter agreement between us, through FHFA in its capacity as conservator, and Treasury. See "Risk Factors" for a description of the risks to our business relating to the senior preferred stock purchase agreement, as well as the adverse effects of the senior preferred stock and the warrant on the rights of holders of our common stock and other series of preferred stock.

Senior Preferred Stock Purchase Agreement

The senior preferred stock purchase agreement provides that, on a quarterly basis, we may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), for the applicable fiscal quarter (referred to as the "deficiency amount"), up to the maximum amount of remaining funding under the agreement. As of the date of this filing, the maximum amount of remaining funding under the agreement is $113.9 billion. If we were to draw additional funds from Treasury under the agreement with respect to a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the senior preferred stock purchase agreement. The amount of remaining funding under the agreement also would not change if the full quarterly dividend amount were not declared and paid to Treasury.

Treasury's funding commitment under the senior preferred stock purchase agreement has no expiration date. The agreement provides that Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations); or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

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

In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies with respect to that failure, any holder of such defaulted debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund us up to (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS, (2) the deficiency amount, or (3) the amount of remaining funding under the senior preferred stock purchase agreement, whichever is the least. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the agreement that will increase the liquidation preference of the senior preferred stock.

Senior Preferred Stock

Shares of the senior preferred stock have no par value and have a stated value and initial liquidation preference equal to $1,000 per share, for an aggregate initial liquidation preference of $1.0 billion. Under the terms of the senior preferred stock, the aggregate liquidation preference is increased by the following:

- any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement (a total of $119.8 billion as of the date of this filing),
- any quarterly commitment fees that are payable but not paid in cash (no such fees have become payable, nor will they under the current terms of the agreement and the senior preferred stock), and
- any dividends that are payable but not paid in cash to Treasury, regardless of whether or not they are declared.

In addition, the December 2017 letter agreement increased the aggregate liquidation preference of the senior preferred stock by $3.0 billion as of December 31, 2017.

Accordingly, the aggregate liquidation preference of the senior preferred stock was $123.8 billion as of December 31, 2018.

Treasury, as the holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. The dividends we have paid to Treasury on the senior preferred stock during conservatorship have been declared by, and paid at the direction of, our conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors.

The dividend provisions of the senior preferred stock have been amended twice.

- *Original Dividend Rate.* As originally issued, the senior preferred stock provided for cumulative quarterly cash dividends at an annual rate of 10% per year on the stock's then-current liquidation preference. This dividend rate was applicable from the fourth quarter of 2008 through the fourth quarter of 2012.
-

*"Net Worth Sweep" Amendment*As amended in August 2012, the senior preferred stock provides for a "net worth sweep" dividend. For each quarterly dividend period, the dividend amount is the amount, if any, by which our net

worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. Our net worth is defined as the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. The applicable capital reserve amount was initially $3.0 billion for dividend periods in 2013 and decreased by $600 million each year until it reached $600 million for dividend periods in 2017. These provisions became applicable in the first quarter of 2013 and remain in effect as modified by the December 2017 letter agreement.

- *December 2017 Amendment.* As amended in December 2017, the applicable capital reserve amount was increased to $3.0 billion. If we do not declare and pay the dividend amount in full for any dividend period for which dividends are payable, then the applicable capital reserve amount will thereafter be zero. The December 2017 letter agreement also reduced by $2.4 billion the dividend amount otherwise payable for the fourth quarter of 2017.

As a result of these amended dividend provisions, for each quarterly period beginning with the first quarter of 2018, dividends on the senior preferred stock accumulate and are payable based on the amount by which our net worth as of the end of the immediately preceding fiscal quarter exceeds $3.0 billion. If our net worth does not exceed the applicable capital reserve amount of $3.0 billion as of the end of the immediately preceding fiscal quarter, then dividends will neither accumulate nor be payable for such period.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. As a result, if we are liquidated, the holder of the senior preferred stock is entitled to its then-current liquidation preference (which includes any accumulated but unpaid dividends) before any distribution is made to the holders of our common stock or other preferred stock.

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

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accumulated and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition to these exceptions, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

Common Stock Warrant

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

Covenants under Treasury Agreements

The senior preferred stock purchase agreement contains covenants that prohibit us from taking a number of actions without the prior written consent of Treasury, including:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, except for dispositions for fair market value in limited circumstances including if (a) the transaction is in the ordinary course of business and consistent with past practice or (b) the assets have a fair market value individually or in the aggregate of less than $250 million;
- issuing subordinated debt; and

- seeking or permitting the termination of our conservatorship, other than in connection with a receivership.

The senior preferred stock purchase agreement also prohibits us from entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements with any of our executive officers (as defined by Securities and Exchange Commission ("SEC") rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

In addition, the senior preferred stock purchase agreement subjects us to limits on the amount of mortgage assets that we may own and the total amount of our indebtedness.

- *Mortgage Asset Limit.* The amount of mortgage assets we are permitted to own decreased by a specified amount each year until it reached a limit of $250.0 billion as of December 31, 2018. In addition, FHFA has directed that we further cap our mortgage assets at $225.0 billion. For purposes of calculating our limit, mortgage asset amounts are based on the unpaid principal balance of such assets and do not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. Applying this measure, our mortgage assets as of December 31, 2018 were $179.2 billion. We disclose the amount of our mortgage assets on a monthly basis under the caption "Mortgage Portfolio End Balance" in our Monthly Summaries, which are available on our website and announced in a press release.
- *Debt Limit.* Our debt limit under the senior preferred stock purchase agreement is set at 120% of the amount of mortgage assets we were allowed to own under the agreement on December 31 of the immediately preceding calendar year. Accordingly, our debt limit in 2018 was $346.1 billion and, beginning in 2019 and for each year thereafter, our debt limit is $300.0 billion. For purposes of this calculation, indebtedness is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Applying this measure, our indebtedness as of December 31, 2018 was $232.5 billion. We disclose the amount of our indebtedness on a monthly basis under the caption "Total Debt Outstanding" in our Monthly Summaries, which are available on our website and announced in a press release.

Annual Risk Management Plan Covenant. Each year we remain in conservatorship we are required to provide Treasury a risk management plan that sets out our strategy for reducing our risk profile, describes the actions we will take to reduce the financial and operational risk associated with each of our business segments, and includes an assessment of our performance against the planned actions described in the prior year's plan. We submitted our most recent annual risk management plan to Treasury in December 2018.

Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against one or more of the United States, Treasury and FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. For a description of these lawsuits, see "Legal Proceedings" and "Note 16, Commitments and Contingencies."

Housing Finance Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, Fannie Mae and Freddie Mac should play. We describe below some recent actions and statements relating to housing finance reform from the Administration and Congress, as well as actions our conservator has been taking to further housing finance reform. We expect Congress, the Administration and FHFA to continue to consider housing finance reform, which could result in significant changes in our structure and role in the future. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors—GSE and Conservatorship Risk" for more information on our uncertain future, including the risks to our business and profitability arising from our conservatorship status and potential housing finance reform.

Administration Developments

Officials in the Trump Administration have indicated that resolving the conservatorships of Fannie Mae and Freddie Mac is a priority and that the Administration intends to release a framework for housing finance reform in early 2019.

On January 3, 2019 President Trump submitted the nomination of Mark Calabria to serve as Director of FHFA for a five-year term. On January 7, 2019, Joseph Otting, Comptroller of the Currency, became Acting Director of FHFA pending Senate confirmation of Mr. Calabria's nomination. As we discuss in "Risk Factors—GSE and Conservatorship Risk," the changes in leadership at the FHFA could result in significant changes to FHFA's goals for our conservatorship and have a material impact on our business and financial results.

Legislative Developments

The Chairman of the Senate Committee on Banking, Housing and Urban Affairs and the Chairwoman of the House Committee on Financial Services have each stated that addressing housing finance reform is a responsibility of their respective Committees. On February 1, 2019, the Chairman of the Senate Banking Committee stated his desire to reform the housing finance system and released an outline of reform legislation. Congress may continue to consider proposed housing finance reform legislation that could result in significant changes in our structure and role in the future, including proposals that would result in Fannie Mae's liquidation or dissolution.

Conservator Developments and Strategic Goals

Strategic Goals and Scorecards

FHFA's current strategic goals for Fannie Mae and Freddie Mac's conservatorships are to:

- **Maintain**, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- **Reduce** taxpayer risk through increasing the role of private capital in the mortgage market.
- **Build** a new single-family infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

Since 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard. The conservatorship scorecard details the specific priorities each year for implementing FHFA's strategic goals. Some of the actions we are taking pursuant to the mandates of the scorecards are helping to build the policies and infrastructure for a safer and more sustainable housing finance system. FHFA's recent conservatorship scorecards have included objectives relating to development of the common securitization platform for Fannie Mae and Freddie Mac, development of UMBS, credit risk transfer transactions, and mortgage data standardization.

For more information on FHFA's 2019 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the SEC on December 20, 2018. For information on actions we took in 2018 pursuant to FHFA's 2018 conservatorship scorecard, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2018 Compensation—Assessment of Corporate Performance against 2018 Conservatorship Scorecard."

Proposed Rule on MBS Prepayment Rates

On September 12, 2018, FHFA issued a proposed rule to require Fannie Mae and Freddie Mac to align their programs, policies and practices that affect the prepayment rates of TBA-eligible MBS. The rule would apply to Fannie Mae's and Freddie Mac's current offerings of TBA-eligible MBS and to the new UMBS scheduled to be implemented in June 2019. The objective of the Single Security Initiative and the proposed rule is to enhance the overall liquidity of Fannie Mae and Freddie Mac TBA-eligible MBS by supporting their fungibility without regard to which company is the issuer. The proposed rule notes that "[t]he industry has expressed concerns that Fannie Mae and Freddie Mac UMBS may not be truly fungible because differences in Fannie Mae and Freddie Mac policies could result in materially differing cash flows (as a result of, *e.g.*, differing prepayment speeds)." FHFA, as conservator, has previously responded to industry input by imposing alignment mandates on Fannie Mae and Freddie Mac, and publishing a Prepayment Monitoring Report. The proposed rule would codify FHFA's previous mandates, and is intended to ensure that Fannie Mae and Freddie Mac programs, policies and practices that individually have a material effect on cash flows (including policies that affect prepayment speeds) are aligned and will continue to be aligned. See "Mortgage Securitizations" for more information on the Single Security Initiative and "Risk Factors" for a discussion of the risks to our business associated with the new UMBS and the Single Security Initiative.

Charter Act and Regulation

Charter Act

Fannie Mae is a shareholder-owned corporation organized and existing under the Charter Act. We were initially established in 1938.

The Charter Act defines our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. Specifically, the Charter Act states that our purposes are to:

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

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

Principal balance limitations. To meet these purposes, the Charter Act authorizes us to purchase and securitize mortgage loans secured by single-family and multifamily properties, subject to maximum original principal balance limits, known as "conforming loan limits" on single-family conventional mortgage loans that we purchase or securitize. The conforming loan limits are adjusted each year based on FHFA's housing price index. For 2018, the conforming loan limit for mortgages secured by one-family residences was set at $453,100, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). For 2019, FHFA increased the national conforming loan limit for one-family residences to $484,350. In addition, higher loan limits of up to 150% of the otherwise applicable loan limit apply in certain high-cost areas. The Charter Act does not impose maximum original principal balance limits on loans we purchase or securitize that are insured by the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs ("VA").

The Charter Act also includes the following provisions:

- *Credit enhancement requirements.* The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize that has an LTV ratio over 80% at the time of purchase. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer on the portion of the unpaid principal balance of a mortgage loan that exceeds 80% of the property value; (2) a seller's agreement to repurchase or replace the loan in the event of default; or (3) retention by the seller of at least a 10% participation interest in the loan. Regardless of LTV ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.
- *Issuances of our securities.* We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.
- *Authority of Treasury to purchase our debt obligations.* At the discretion of the Secretary of the Treasury, Treasury may purchase our debt obligations up to a maximum of $2.25 billion outstanding at any one time.
- *Exemption for our securities offerings.* Our securities offerings are exempt from registration requirements under the federal securities laws. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. However, our equity securities are not treated as exempt securities for purposes of Sections 12, 13, 14 or 16 of the Securities Exchange Act of 1934 (the "Exchange Act"). Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. Our non-equity securities are exempt securities under the Exchange Act.
- *Exemption from specified taxes.* Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.
- *Limitations.* We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. We may purchase or securitize mortgage loans only on properties located in the United States and its territories.

GSE Act and Other Regulation

As a federally chartered corporation, we are subject to government regulation and oversight. FHFA is our primary regulator, and regulates our safety and soundness and our mission. FHFA is an independent agency of the federal government with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the Federal Home Loan Banks ("FHLBs"). The U.S. Department of Housing and Urban Development ("HUD") is our regulator with respect to fair lending matters. Our regulators also include the SEC and Treasury.

The GSE Act provides FHFA with safety and soundness authority that is comparable to and in some respects broader than that of the federal banking agencies. We describe below regulations applicable to us pursuant to the GSE Act and other legislation, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). We also describe some regulations applicable to the mortgage industry and the securities markets that may indirectly affect us.

Capital

The GSE Act establishes minimum, risk-based, and critical capital standards for Fannie Mae and Freddie Mac, which we discuss in "Note 12, Regulatory Capital Requirements." However, FHFA has suspended these capital classifications because we are under conservatorship. Although existing statutory and regulatory capital requirements are not binding during conservatorship, we continue to submit capital reports to FHFA and FHFA monitors our capital levels. Moreover, with our 2017 implementation of the conservatorship capital framework and FHFA's 2018 proposal of new capital requirements, both discussed below, we are focused on managing our business in a manner consistent with the conservatorship capital framework and working with FHFA to adopt any new capital rule, when approved and applicable.

Conservatorship Capital Framework

In lieu of these statutory capital requirements, in 2017 FHFA directed Fannie Mae and Freddie Mac to implement an aligned risk measurement framework for evaluating Fannie Mae and Freddie Mac business decisions and performance during conservatorship. The framework includes specific requirements relating to risk on our book of business and modeled returns on our new acquisitions. We are required to submit quarterly reports to FHFA relating to the framework's requirements. We continuously review our business decisions as they relate to existing and prospective capital framework standards.

In December 2017 and February 2018, FHFA, in its capacity as conservator, provided guidance relating to our guaranty fee pricing for new single-family acquisitions. FHFA's guidance requires that we meet a specified minimum return on equity target based on the conservatorship capital framework. We implemented this target in the first quarter of 2018.

Proposed Capital Requirements

In June 2018, FHFA proposed new capital requirements for Fannie Mae and Freddie Mac, which would also be suspended while we remain in conservatorship. The proposed rule would implement a new framework for risk-based capital requirements and a revised minimum leverage capital requirement. The proposed risk-based capital framework would provide a granular assessment of credit risk specific to different mortgage loan categories, as well as components for market risk, operational risk, and a going-concern buffer. The proposed rule includes two alternative leverage ratio proposals on which FHFA sought feedback. FHFA received approximately 80 comments on the proposed capital rule, including a comment from us, addressing a broad range of issues prior to the closing of the comment period on November 16, 2018. Any final capital rule would have a significant impact on our business and profitability outside of conservatorship.

Stress Testing

The Dodd-Frank Act requires certain financial companies to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. Under FHFA regulations implementing this requirement, each year we are required to conduct a stress test using three different scenarios of financial conditions provided by FHFA: baseline, adverse and severely adverse. In conducting the stress test, we are required to calculate the impact of the scenario conditions on our capital levels and other specified measures of financial condition and performance over a period of at least nine quarters. We published our most recent stress test results for the severely adverse scenario on our website in August 2018.

Portfolio Standards

The GSE Act requires FHFA to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. In 2010, FHFA adopted, as the standard for our portfolio holdings, the portfolio limits specified in the senior preferred stock purchase agreement described under "Conservatorship, Treasury Agreements and Housing Finance Reform—Treasury Agreements—Covenants under Treasury Agreements," as it may be amended from time to time. The rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

New Products and Activities

The GSE Act requires us to obtain FHFA's approval before initially offering any new product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. FHFA published an interim final rule implementing these provisions in July 2009, but concluded that permitting us to engage in new products was inconsistent with the goals of the conservatorship and instructed us not to submit new product requests under the rule.

Strategic Business Plan

In October 2018, FHFA amended the corporate governance regulation that applies to us to require our Board of Directors to adopt and have in effect at all times a strategic business plan that describes our strategy for achieving our mission and public purposes. The plan must articulate measurable goals for each significant activity, describe any significant changes to business strategy or approach we are planning to undertake, and identify current and emerging risks associated with our significant activities. Our Board of Directors must review the strategic business plan at least annually, re-adopt the plan at least every three years, establish management reporting requirements, and monitor the plan's implementation. See "Executive Summary—Our Strategic Objectives" for information about our strategic objectives.

Receivership

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts as they become due, in either case, for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and liabilities would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days thereafter. FHFA has advised us that if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency

amount under the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; undercapitalization and no reasonable prospect of becoming adequately capitalized; the likelihood of losses that will deplete substantially all of our capital; or by consent.

The appointment of FHFA as receiver would immediately terminate the conservatorship. In the event of receivership, the GSE Act requires FHFA, as the receiver, to organize a limited-life regulated entity with respect to Fannie Mae. Among other requirements, the GSE Act provides that this limited-life regulated entity:

- would succeed to Fannie Mae's charter and thereafter operate in accordance with and subject to such charter;
- would assume, acquire or succeed to our assets and liabilities to the extent that such assets and liabilities are transferred by FHFA to the entity; and
- would not be permitted to assume, acquire or succeed to any of our obligations to shareholders.

Placement into receivership would likely have a material adverse effect on holders of our common stock and preferred stock, and could have a material adverse effect on holders of our debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to receivership and uncertainties regarding the future of our business, see "Risk Factors—GSE and Conservatorship Risk."

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases and to pay this amount to specified HUD and Treasury funds. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. We are prohibited from passing through the cost of these allocations to the originators of the mortgage loans that we purchase or securitize.

In December 2014, FHFA directed us to begin setting aside amounts for these contributions and to transfer the amounts set aside within 60 days after the end of each fiscal year, except for any fiscal year for which a draw from Treasury was made under the terms of the senior preferred stock purchase agreement or in which such transfer would cause such a draw. Our new business purchases were $512 billion for the year ended December 31, 2018. Accordingly, we recognized an expense of $215 million related to this obligation for the year ended December 31, 2018.

Executive Compensation

The amount of compensation we may pay our executives is subject to a number of legal and regulatory restrictions, particularly while we are in conservatorship. For example:

- *GSE Act*. The GSE Act directs FHFA to prohibit us from providing compensation to our executive officers that is not reasonable or comparable. FHFA may at any time review the reasonableness and comparability of an executive officer's compensation and may require us to withhold any payment to the officer during such review.
- *STOCK Act.* Pursuant to the Stop Trading on Congressional Knowledge Act (the "STOCK Act") and related regulations issued by FHFA, our senior executives are prohibited from receiving bonuses while the company remains in conservatorship.
- *Equity in Government Compensation Act.* The Equity in Government Compensation Act of 2015 caps the annual total direct compensation of our chief executive officer position at $600,000 while the company is in conservatorship or receivership.
- *Golden Parachute Reg*ulation. FHFA regulation requires the approval of the Director of FHFA before we may enter into any agreement providing compensation in connection with the termination of an executive officer's employment. FHFA regulation also generally prohibits us from making golden parachute payments to any current or former director, officer or employee of the company during any period in which we are in conservatorship, receivership or other troubled condition, unless either a specific exemption applies or the Director of FHFA approves the payments. A golden parachute payment generally refers to a compensatory payment that is contingent on termination of employment.

For more information on our executive compensation program and regulatory and other legal requirements affecting our executive compensation, see "Executive Compensation."

Fair Lending

The GSE Act requires the Secretary of HUD to assure that Fannie Mae and Freddie Mac meet their fair lending obligations. Among other things, HUD periodically reviews and comments on our underwriting and appraisal guidelines to ensure consistency with the Fair Housing Act.

Guaranty Fees and Pricing

Our guaranty fees and pricing are subject to regulatory and legislative requirements:

- In July 2016, FHFA in its regulatory capacity, established minimum base guaranty fees that generally apply to our acquisitions of 30-year and 15-year single-family fixed-rate loans in lender swap transactions. These minimum base guaranty fees were implemented in November 2016.
- In December 2011, Congress enacted the Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. The revenue generated by this fee increase is paid to Treasury and helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

In addition, as discussed in "Capital—Conservatorship Capital Framework," FHFA has established requirements for our guaranty fee pricing in its capacity as conservator.

Housing Goals

Our housing goals, which are established by FHFA in accordance with the GSE Act, require that a specified amount of mortgage loans we acquire meet requirements relating to affordability or location. For single-family goals, our acquisitions are measured against the lower of benchmarks set by FHFA or the level of goals-qualifying originations in the primary mortgage market. Multifamily goals are established as a number of units to be financed.

In December 2018, FHFA determined that we met all of our single-family and multifamily housing goals for 2017. The tables below display our housing goals for 2017 and 2018, as well as our 2017 performance against our goals.

Single-Family Housing Goals(1)

	2017			2018
	FHFA Benchmark	**Single-Family Market Level**	**Result**	**FHFA Benchmark**
Low-income (≤80% of area median income) families home purchases	24%	24.3%	25.5%	**24%**
Very low-income (≤50% of area median income) families home purchases	6	5.9	5.9	**6**
Low-income areas home purchases(2)	18	21.5	22.9	**18**
Low-income and high-minority areas home purchases(3)	14	17.1	18.3	**14**
Low-income families refinances	21	25.4	24.8	**21**

(1) The FHFA benchmarks and our results are expressed as a percentage of the total number of eligible single-family mortgages acquired during the period. The Single-Family Market level is the percentage of eligible single-family mortgages originated in the primary mortgage market.

(2) These mortgage loans must be secured by a property that is (a) in a low-income census tract, (b) in a high-minority census tract and affordable to moderate-income families (those with incomes less than or equal to 100% of area median income), or (c) in a designated disaster area and affordable to moderate-income families.

(3) These mortgage loans must be secured by a property that is (a) in a low-income census tract or (b) in a high-minority census tract and affordable to moderate-income families.

Multifamily Housing Goals

	2017 Goal	Result	2018 Goal
	(in units)		
Low-income families	300,000	401,145	**315,000**
Very low-income families	60,000	82,674	**60,000**
Small affordable multifamily properties[1]	10,000	12,043	**10,000**

(1) Small affordable multifamily properties are those with 5 to 50 units that are affordable to low-income families.

We will report our 2018 housing goals performance to FHFA in March 2019, and FHFA will make a final determination regarding our 2018 performance later in the year, after data regarding the share of goals-qualifying originations in the primary mortgage market, reported under the Home Mortgage Disclosure Act ("HMDA"), becomes available.

As described in "Risk Factors," actions we may take to meet our housing goals and duty to serve requirements described below may increase our credit losses and credit-related expense.

Duty to Serve Underserved Markets

The GSE Act requires that we serve very low-, low-, and moderate-income families in three specified underserved markets: manufactured housing, affordable housing preservation and rural housing. In December 2016, FHFA published a final rule implementing our duty to serve these underserved markets. Under the rule, we are required to adopt an underserved markets plan for each underserved market covering a three-year period that sets forth the activities and objectives we will undertake to meet our duty to serve that market. Our first underserved markets plans received non-objections from FHFA and were finalized and published in December 2017. The plans are effective for 2018 to 2020.

The types of activities that are eligible for duty to serve credit in each underserved market are summarized below:

- *Manufactured housing market.* For the manufactured housing market, duty to serve credit is available for eligible activities relating to manufactured homes (whether titled as real property or personal property (known as chattel)) and loans for specified categories of manufactured housing communities.
- *Affordable housing preservation market.* For the affordable housing preservation market, duty to serve credit is available for eligible activities relating to preserving the affordability of housing for renters and buyers under specified programs enumerated in the GSE Act and other comparable affordable housing programs administered by state and local governments, subject to FHFA approval. Duty to serve credit also is available for activities related to small multifamily rental properties, energy efficiency improvements on existing multifamily rental and single-family first lien properties, certain shared equity homeownership programs, the purchase or rehabilitation of certain distressed properties, and activities under HUD's Choice Neighborhoods Initiative and Rental Assistance Demonstration programs.
- *Rural housing market.* For the rural housing market, duty to serve credit is available for eligible activities related to housing in rural areas, including activities related to housing in high-needs rural regions and for high-needs rural populations.

As provided under the rule, FHFA adopted final evaluation guidance in November 2017. The guidance communicates FHFA's expectations regarding the development of the underserved markets plans and describes the annual process by which FHFA will evaluate our achievements under the plans. Our performance results will be reported to Congress annually. If FHFA determines that we failed to meet the requirements of an underserved markets plan, it may result in the imposition of a housing plan that could require us to take additional steps.

Swap Transactions; Minimum Capital and Margin Requirements

As a result of the Dodd-Frank Act, we are required to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in October 2015, an inter-agency body of regulators issued a final rule under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. The rule is effective in two phases and each phase requires that we implement operational changes and changes relating to the collateral we collect and provide for swap transactions. We complied with the first phase of the rule that became effective in 2017. The second phase of the rule is scheduled to become effective in September 2020. This phase will require additional operational changes and changes to collateral requirements, which may increase the costs associated with hedging our retained mortgage portfolio.

Risk Retention

In 2014, an inter-agency body of regulators issued a final rule implementing the Dodd-Frank Act's credit risk retention requirement. The final rule generally requires securitizers to retain at least 5% of the credit risk of the assets they securitize. The rule offers several compliance options, one of which is to have either Fannie Mae or Freddie Mac (so long as

they are in conservatorship or receivership with capital support from the United States) securitize and fully guarantee the assets, in which case no further retention of credit risk is required. In addition, securities backed solely by mortgage loans meeting the definition of a "qualified residential mortgage" are exempt from the risk retention requirements of the rule. The rule defines "qualified residential mortgage" to have the same meaning as the term "qualified mortgage" as defined by the Consumer Financial Protection Bureau (the "CFPB") in connection with its ability-to-repay rule discussed below.

Ability to Repay

The Dodd-Frank Act amended the Truth in Lending Act ("TILA") to require creditors to determine that borrowers have a "reasonable ability to repay" most mortgage loans prior to making such loans. In 2013, the CFPB issued a final rule under Regulation Z that, among other things, requires creditors to determine a borrower's "ability to repay" a mortgage loan. If a creditor fails to comply, a borrower may be able to offset a portion of the amount owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability-to-repay requirement, including making loans that meet certain terms and characteristics (referred to as "qualified mortgages"), which may provide creditors and their assignees with special protection from liability. Generally, a loan will be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the debt-to-income ratio on the loan does not exceed 43% at origination. The CFPB also defined a special class of conventional mortgage loans that will be qualified mortgages if they (1) meet the points and fees, term and amortization requirements of qualified mortgages generally and (2) are eligible for sale to Fannie Mae or Freddie Mac. This class of qualified mortgages expires on the earlier of January 10, 2021 or when Fannie Mae and Freddie Mac cease to be in conservatorship or receivership.

Although TILA does not apply to us, as we do not originate loans in the primary mortgage market, these rules apply to the lenders from which we acquire single-family mortgage loans. In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to those loans that meet the points and fees, term and amortization requirements for qualified mortgages, or to loans that are exempt from the ability-to-repay rule, such as loans made to investors.

In January 2019, the CFPB released a white paper reviewing the ability-to-repay rule. The paper did not contain any recommendations for regulatory changes but may be used to make changes in the future. We anticipate that the CFPB may take action on the temporary qualified mortgage rule in the next 12 months. Changes in this rule may affect, perhaps materially, the quality and quantity of loans available for delivery to us.

TILA-RESPA Integrated Disclosure ("TRID")

The Dodd-Frank Act required the CFPB to streamline and simplify the disclosures required under TILA and the Real Estate Settlement Procedures Act. In October 2015, the CFPB's final rule implementing these changes went into effect. Although this rule applies to mortgage originators and is not directly applicable to us, we could face potential liability for certain errors in the new required disclosures in connection with the loans we acquire from lenders. It remains unclear what sorts of errors will give rise to liability. Also in October 2015, FHFA directed us and Freddie Mac not to conduct post-purchase loan file reviews for technical compliance with TRID. Consistent with FHFA's directive, we currently do not intend to exercise our contractual remedies, including requiring the lender to repurchase the loan, for noncompliance with the newly applicable provisions of TRID, except in two limited circumstances: if the required form is not used; or if a particular practice would impair enforcement of the note or mortgage or would result in assignee liability, and a court of law, regulator or other authoritative body has determined that such practice violates TRID.

Proposed Rule on Credit Score Models

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act") provides that, if we condition the purchase of a mortgage loan on a borrower's credit score, that credit score must be produced by a model that has been validated and approved by us based on the standards and criteria in the Economic Growth Act and FHFA regulations. The Economic Growth Act requires Fannie Mae and Freddie Mac to solicit applications for validation and approval of third party credit score models no later than December 20, 2018. On December 13, 2018, FHFA proposed a rule, as required by the Economic Growth Act, relating to the validation and approval of credit score models. Because it was not feasible to finalize FHFA's credit score models rule by December 20, 2018, FHFA directed Fannie Mae and Freddie Mac to delay soliciting applications for validation and approval of third party credit score models until the rule is finalized. Comments on the proposed rule are due by March 21, 2019.

Before passage in May 2018 of the Economic Growth Act, we had been assessing new credit score models pursuant to FHFA's 2018 conservatorship scorecard. In July 2018, FHFA announced it would not make a decision on the credit score models used by us and by Freddie Mac and instead would shift its focus to implementing the steps required under the Economic Growth Act.

Single-Counterparty Credit Limit

In June 2018, the Federal Reserve adopted a rule to restrict the counterparty credit exposure of very large banking organizations. Beginning in 2020, any bank holding company with $250 billion or more in total consolidated assets must limit

its exposure to any counterparty and its affiliates to no more than 25% of tier 1 capital, and any U.S. banking organization that is a global systemically important bank ("U.S. GSIB") must adhere to a stricter limit of 15% of tier 1 capital for exposures to any other U.S. GSIB or non-bank entity supervised by the Federal Reserve. Similarly, limits are set on counterparty credit exposures held by U.S. intermediate holding companies that are subsidiaries of foreign banking organizations. While Fannie Mae is in conservatorship, exposures involving claims on or directly and fully guaranteed by Fannie Mae are exempt from these restrictions and Fannie Mae MBS and debt can be used as collateral to reduce a banking organization's counterparty exposure. At this time, we do not know what impact, if any, this rule will have on our customers' business practices, or whether and to what extent this rule may adversely affect demand for or the liquidity of securities we issue.

The Future of LIBOR and Alternative Reference Rates

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The Federal Reserve convened a group of private-market participants, known as the Alternative Reference Rate Committee (the "ARRC"), to identify a set of alternative U.S. dollar reference interest rates and an adoption plan for those alternative rates. In June 2017, the ARRC recommended an alternative reference rate referred to as the Secured Overnight Financing Rate ("SOFR") to be published by the Federal Reserve Bank of New York. In 2018, we became a voting member of the ARRC. We also participate on the majority of the ARRC's working groups. In support of the ARRC's efforts to develop SOFR as a key market index, in 2018 we issued the market's first SOFR securities, issuing a total of $11.0 billion in SOFR-indexed floating-rate corporate debt. We also entered into SOFR-indexed interest rate swaps and futures transactions to further support the development of this emerging index. At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR will become the benchmark to replace LIBOR. Because we routinely engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on us, borrowers, investors, and our customers and counterparties. See "Risk Factors—Market and Industry Risk" for a discussion of the risks to our results of operations, financial condition, liquidity and net worth posed by the potential phasing out of LIBOR.

Employees

As of January 31, 2019, we employed approximately 7,400 personnel, including full-time and part-time employees, and employees on leave.

Where You Can Find Additional Information

We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our website address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's website, www.sec.gov. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at 1-800-2FANNIE (1-800-232-6643), or by writing to Fannie Mae, Attention: Fixed-Income Securities, 1100 15th Street, NW, Washington, DC 20005.

All references in this report to our website addresses or the website address of the SEC are provided solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this annual report on Form 10-K.

Forward-Looking Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, we and our senior management may from time to time make forward-looking statements in our other filings with the SEC, our other publicly available written statements and orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "sho "could," "likely," "may," "will" or similar words. Examples of forward-looking statements in this report include, among others, statements relating to our expectations regarding the following matters:

- our future profitability, financial condition and results of operations, and the factors that will affect them;
- our business plans and strategies and the impact of such plans and strategies;
- our dividend payments to Treasury;
- our retained mortgage portfolio;
- our expectations regarding the implementation and our use of the common securitization platform and the implementation and impact of the Single Security Initiative, as well as our issuances of UMBS;

- our plans relating to and the effects of our credit risk transfer transactions;
- other factors that could affect or mitigate our credit risk exposure;
- our future capital requirements;
- our payments to HUD and Treasury funds under the GSE Act;
- the consequences of our conservatorship, any end or change to our conservatorship, and possible receivership;
- the impact of accounting guidance and accounting changes on our business or financial results, including the impact of impairment accounting guidance;
- the impact of the Federal Reserve's balance sheet normalization program;
- the impact of legislation and regulation on our business or financial results;
- mortgage market and economic conditions (including home price appreciation rates) and the impact of such conditions on our business or financial results;
- the risks to our business;
- our serious delinquency rate and the factors that will affect our serious delinquency rate;
- the performance of the loans in our book of business and factors that will affect such performance;
- our loan acquisitions and the credit risk profile of such acquisitions;
- factors that will affect our liquidity and ability to meet our debt obligations and factors relating to our liquidity contingency plans; and
- our response to legal and regulatory proceedings and their impact on our business or financial condition.

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

There are a number of factors that could cause actual conditions, events or results to differ materially from those described in our forward-looking statements, including, among others, the following:

- the uncertainty of our future;
- future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation;
- actions by FHFA, Treasury, HUD or other regulators that affect our business;
- changes in the structure and regulation of the financial services industry;
- the timing and level of, as well as regional variation in, home price changes;
- changes in interest rates and credit spreads;
- uncertainties relating to the potential phasing out of LIBOR, or other market changes that could impact the loans we own or guaranty or our MBS;
- credit availability;
- disruptions or instability in the housing and credit markets;
- growth, deterioration and the overall health and stability of the U.S. economy, including the U.S. gross domestic product ("GDP"), unemployment rates, personal income and other indicators thereof;
- changes in the fiscal and monetary policies of the Federal Reserve;
- our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues;
- the volume of mortgage originations;
- the size, composition and quality of our guaranty book of business and retained mortgage portfolio;
- the competitive landscape in which we operate, including the impact of legislative or other developments on levels of competition in our industry and other factors affecting our market share;
- the life of the loans in our guaranty book of business;
- challenges we face in retaining and hiring qualified executives and other employees;
- our future serious delinquency rates;

- the deteriorated credit performance of many loans in our guaranty book of business;
- changes in the demand for Fannie Mae MBS, in general or from one or more major groups of investors;
- the conservatorship, including any changes to or termination (by receivership or otherwise) of the conservatorship and its effect on our business;
- the investment by Treasury and its effect on our business;
- adverse effects from activities we undertake to support the mortgage market and help borrowers;
- actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of the Single Security Initiative;
- limitations on our business imposed by FHFA, in its role as our conservator or as our regulator;
- our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers;
- a decrease in our credit ratings;
- limitations on our ability to access the debt capital markets;
- significant changes in modification and foreclosure activity;
- the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates;
- changes in borrower behavior;
- the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies;
- defaults by one or more institutional counterparties;
- resolution or settlement agreements we may enter into with our counterparties;
- our need to rely on third parties to fully achieve some of our corporate objectives;
- our reliance on mortgage servicers;
- changes in GAAP, guidance by the Financial Accounting Standards Board (the “FASB”), and changes to our accounting policies;
- changes in the fair value of our assets and liabilities;
- the stability and adequacy of the systems and infrastructure that impact our operations, including ours and those of our counterparties and other third parties on which our business relies;
- operational control weaknesses;
- our reliance on models and future updates we make to our models, including the assumptions used by these models;
- domestic and global political risks and uncertainties;
- natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events;
- cyber attacks or other information security breaches or threats; and
- the other factors described in “Risk Factors.”

Readers are cautioned not to unduly rely on the forward-looking statements we make and to place these forward-looking statements into proper context by carefully considering the factors discussed in “Risk Factors” in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1A. Risk Factors

Refer to “MD&A—Key Market Economic Indicators,” “MD&A—Risk Management,” “MD&A—Single-Family Business” and “MD&A—Multifamil Business” for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by any forward-looking statements we make. We believe the risks described below and in the other sections of this report referenced above are the most significant we face; however, these are not the only risks we face. In addition to the risks we discuss below, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

GSE and Conservatorship Risk

The future of our company is uncertain.

There continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, how long we will be in conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated, and whether we will continue to exist following conservatorship. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Our conservatorship could terminate through a receivership. Termination of the conservatorship, other than in connection with a receivership, requires Treasury's consent under the senior preferred stock purchase agreement.

We expect Congress, the Administration and FHFA to continue to consider housing finance reform, which could result in significant changes in our structure and role in the future, including proposals that would result in Fannie Mae's liquidation or dissolution. Officials in the Trump Administration have indicated that resolving the conservatorships of Fannie Mae and Freddie Mac is a priority and that the Administration intends to release a framework for housing finance reform in early 2019. Congress, FHFA or other agencies may also consider legislation, regulation or other administrative actions aimed at increasing the competition we face, reducing our market share, expanding our obligations to provide funds to Treasury, constraining our business operations, or subjecting us to new obligations that could impose substantial burdens or adversely affect our results of operations or financial condition. We cannot predict the timing or final content of housing finance reform legislation, other legislation, regulations or administrative actions related to our activities, nor can we predict the impact any such enacted legislation, regulation or administrative actions would have on our business and financial condition.

We may not have sufficient capital reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. If we have a net worth deficit in a future quarter, we will be required to draw funds from Treasury to avoid being placed into receivership.

The dividend provisions of the senior preferred stock permit us to retain only up to $3.0 billion as capital reserves, provided our conservator directs us to declare and pay senior preferred stock dividends in full in the future. As a result, we may not have sufficient capital reserves to avoid a net worth deficit if we have a comprehensive loss in a future quarter.

We have experienced and expect to continue to experience volatility in our financial results from period to period due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of our derivatives and other financial instruments that we mark to market through our earnings. Other factors that may result in volatility in our quarterly financial results include developments that affect our loss reserves, such as redesignations of loans from HFI to HFS, changes in interest rates, home prices or accounting standards, or events such as natural disasters. Accordingly, although we expect to remain profitable on an annual basis for the foreseeable future, the potential volatility in our financial results, which may be significant from quarter to quarter, could result in a net worth deficit in a future quarter. In addition, other factors such as legislative or regulatory actions could result in a net worth deficit in a future quarter.

In June 2016, the FASB issued guidance that changes the impairment model for most financial assets and certain other instruments. We refer to this guidance, ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, as the "Current Expected Credit Loss" standard, or as the "CECL standard." We will adopt the CECL standard on January 1, 2020. For loans, available-for-sale debt securities and other financial assets recorded at amortized cost, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of expected credit losses. We are continuing to evaluate the impact of this guidance on our consolidated financial statements. We expect the greater impact of the guidance to relate to our accounting for credit losses for loans that are not individually impaired. The adoption of this guidance will likely decrease, perhaps substantially, our retained earnings and increase our allowance for credit losses, which could result in a net worth deficit when we adopt the guidance in the first quarter of 2020.

For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is $113.9 billion. If we were to draw additional funds from Treasury under the agreement with respect to a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. Accordingly, if we experience multiple quarters of net worth deficits, the amount of remaining funding available under the senior preferred stock purchase agreement could be significantly reduced from its current level.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may not be sufficient to repay the liquidation preference of any series of our preferred stock or to provide any proceeds to common shareholders.

FHFA is required to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations or if we have not been paying our debts as they become due, in either case, for a period of 60 days after the SEC filing deadline for any of our Form 10-Ks or Form 10-Qs. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not be able to provide sufficient funds to us within the required 60 days if it has

exhausted its borrowing authority, if there is a government shutdown, or if the funding we need exceeds the amount available to us under the agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the GSE Act. If we are placed into receivership and do not or cannot fulfill our MBS guaranty obligations, there may be significant delays of any payments to our MBS holders, and the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty to the extent the mortgage collateral underlying the Fannie Mae MBS is insufficient to satisfy the claims of the MBS holders.

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. In the event of a liquidation of our assets it is uncertain that there would be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than possibly to Treasury as the holder of our senior preferred stock.

Our business and results of operations may be materially adversely affected if we are unable to retain and recruit well-qualified senior executives and other employees. The conservatorship, the uncertainty of our future and limitations on our executive and employee compensation put us at a disadvantage compared to many other companies in attracting and retaining these employees.

Our business processes are highly dependent on the talents and efforts of our senior executives and other employees. The conservatorship, the uncertainty of our future and limitations on executive and employee compensation have had, and are likely to continue to have, an adverse effect on our ability to retain and recruit well-qualified executives and other employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and successfully implement our and FHFA’s current strategic initiatives, and ultimately could adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, have had, and may continue to have, an adverse effect on our retention and recruitment of senior executives and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees of our company under conservatorship. For example, we are subject to a law that limits the annual direct compensation payable to our chief executive officer to no more than $600,000 while we are in conservatorship or receivership, and a law that prohibits our senior executives from receiving bonuses during any period of conservatorship. Additionally, we are unable to offer equity-based compensation to our employees. As a result of these restrictions, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives. In addition, the uncertainty of potential congressional action with respect to housing finance reform, which may result in the wind-down of the company, also negatively affects our ability to retain and recruit executives and other employees.

Our inability to offer market-based compensation to our chief executive officer also makes succession planning for this position difficult. Our former Chief Executive Officer left the company in October 2018. We currently have an Interim Chief Executive Officer while our board of directors conducts a search for a successor. We believe the limit applicable to our chief executive officer compensation negatively affected our ability to retain our former Chief Executive Officer, and is also negatively affecting our ability to attract a successor for this critical role.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified executives and other employees. If we are unable to retain, promote and attract executives and other employees with the necessary skills and talent, we would face increased risks for operational failures. If there were several high-level departures at approximately the same time, our ability to conduct our business would likely be materially adversely affected, which could have a material adverse effect on our results of operations and financial condition.

Our business activities are significantly affected by the conservatorship and the senior preferred stock purchase agreement.

We are currently under the control of our conservator, FHFA, and we do not know when or how the conservatorship will terminate. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf, and generally has the power to transfer or sell any of our assets or liabilities. In addition, our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS in making or approving a decision unless specifically directed to do so by the conservator.

We are subject to significant restrictions on our business activities during conservatorship. We may be prevented by our conservator from engaging in business activities or transactions that we believe would benefit our business and financial results. For example, because FHFA must approve changes to the national loan level price adjustments we charge and can direct us to make other changes to our guaranty fee pricing, our ability to address changing market conditions, pursue certain strategic objectives, or manage the mix of loans lenders choose to deliver to us is constrained. We publish national risk-based loan level price adjustment grids that specify the additional cash fees we charge at the time we acquire a loan based on the credit characteristics of the loan. These fees allow us to price appropriately for the credit risk we assume in providing our guaranty on the loans. We do not have the ability to implement changes to these pricing grids without the approval of FHFA. If the mix of our single-family loan acquisitions changes, and FHFA does not approve requested changes to our pricing grids in response to these changes, it could adversely affect our financial results and condition. In addition, if FHFA directs us to change our pricing in any manner—including increases or decreases in our base guaranty fees or our loan level price adjustments—it could result in a decrease in our guaranty fee revenues in future periods, a decrease in our single-family business volume or a negative impact on the credit risk profile of our new single-family acquisitions, any of which could adversely affect our financial results and condition.

Because we are under the control of our conservator, our business objectives may not be consistent with the investment objectives of our investors. We are devoting significant resources to meeting FHFA's goals for our conservatorship and expect to continue to do so. We may be required by our conservator to engage in activities that are operationally difficult, costly to implement or unprofitable, or that may adversely affect our financial results or the credit risk profile of our book of business. In addition, actions we take to meet FHFA's strategic goals and objectives for our conservatorship could adversely affect our financial results. FHFA has changed our business objectives significantly since we entered conservatorship, and could make additional changes at any time. On January 3, 2019 President Trump submitted the nomination of Mark Calabria to serve as Director of FHFA for a five-year term. On January 7, 2019, Joseph Otting, Comptroller of the Currency, became Acting Director of FHFA pending Senate confirmation of Mark Calabria's nomination. As we discuss in "Business—Conservatorship, Treasury Agreements and Housing Finance Reform—Conservatorship—Powers of the Conservator under the GSE Act," FHFA has broad powers when acting as our conservator and our business activities are significantly affected by the conservatorship. FHFA's actions as our primary regulator, including some of those discussed in "Business—Charter Act and Regulation—GSE Act and Other Regulation," may also significantly impact us. Accordingly, the changes in leadership at FHFA could result in significant changes to FHFA's goals for our conservatorship and could materially affect our results of operations and financial condition.

Even if we are released from conservatorship, we remain subject to the terms of the senior preferred stock purchase agreement, senior preferred stock and warrant, which can only be canceled or modified with the consent of Treasury. The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets except in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; incur indebtedness that would result in our aggregate indebtedness exceeding $300.0 billion; or seek or permit the termination of our conservatorship (other than in connection with receivership). In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company.

Pursuant to the senior preferred stock purchase agreement, the amount of mortgage assets we are permitted to own reached a limit of $250.0 billion as of December 31, 2018. In addition, FHFA has directed that we further cap our mortgage assets at $225.0 billion.

Actions taken by the conservator and the restrictions set forth in the senior preferred stock purchase agreement could adversely affect our business, results of operations, financial condition, liquidity and net worth.

A number of lawsuits have been filed against the U.S. government relating to the senior preferred stock purchase agreement and the conservatorship. See "Note 16, Commitments and Contingencies" and "Legal Proceedings" for a description of these lawsuits. These lawsuits, and actions Treasury or FHFA may take in response to these lawsuits, could have a material impact on our business.

We may undertake efforts that adversely affect our business, results of operations, financial condition, liquidity and net worth.

In conservatorship our business is no longer managed with a strategy to maximize shareholder returns while fulfilling our mission. FHFA's current strategic goals for our conservatorship are described in "Business—Conservatorship, Treasury Agreements and Housing Finance Reform—Housing Finance Reform—Conservator Developments and Strategic Goals." In pursuit of the goals prescribed by our conservator, we are taking a variety of actions that could adversely affect our economic returns, possibly significantly, such as modifying loans to help struggling borrowers; expanding our underwriting and eligibility requirements to increase access to mortgage credit; increasing our use of credit risk transfer transactions, which effectively reduces the guaranty fee income we retain on the covered loans; and preparing to issue a uniform mortgage-backed security. We may also be asked to take additional efforts in support of our conservator's goals in the future that could adversely affect our economic returns. These activities may have short- and long-term adverse effects on our business, results of operations, financial condition, liquidity and net worth.

Other agencies of the U.S. government or Congress also may ask us to take actions to support the housing and mortgage markets or in support of other goals. These actions may adversely affect our financial results and condition. For example, in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. The revenue generated by this fee increase is paid to Treasury and helps offset the cost of a two-month extension of the payroll tax cut in 2012.

We are also required by the GSE Act to undertake efforts in support of the housing market that could adversely affect our financial results and condition. For example, we are subject to housing goals under the GSE Act that require that a portion of the mortgage loans we acquire must be for low- and very low-income families, families in low-income census tracts and moderate-income families in minority census tracts or designated disaster areas. In addition, in December 2016, FHFA issued a final rule to implement our new duty to serve very low-, low- and moderate-income families in three underserved markets: manufactured housing, affordable housing preservation and rural areas. We are making changes to our business and our acquisitions to comply with our new duty to serve obligations, which went into effect on January 1, 2018. We may take actions to meet our housing goals and duty to serve obligations that could adversely affect our profitability. For example, we may acquire loans that offer lower expected returns on our investment than our other loan acquisitions and that may potentially increase our credit losses and credit-related expenses. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. See "Business—Charter Act and Regulation—GSE Act and Other Regulation" for more information on our housing goals and duty to serve underserved markets.

The conservatorship and agreements with Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders.

The material adverse effects of the conservatorship and our agreements with Treasury include the following:

No voting rights during conservatorship. The rights and powers of our shareholders are suspended during conservatorship. During conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them.

No dividends to common or preferred shareholders, other than to Treasury. Our conservator announced in September 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock, while we are in conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the prior written consent of Treasury, regardless of whether we are in conservatorship.

Our profits are distributed to Treasury. Pursuant to the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter any dividends declared consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds the $3.0 billion capital reserve amount. As a result, our net income is not available to common shareholders or preferred shareholders other than Treasury as holder of the senior preferred stock.

Liquidation preference of senior preferred stock is high and could increase. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference (which includes any accumulated but unpaid dividends), before any distribution is made to the holders of our common stock or other preferred stock. The liquidation preference on the senior preferred stock was $123.8 billion as of December 31, 2018. The liquidation preference would increase further if we draw on Treasury's funding commitment with respect to any future quarters or if we do not pay dividends owed on the senior preferred stock. If we are liquidated, it is uncertain that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.

Exercise of the Treasury warrant would substantially dilute the investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then-existing common shareholders will be substantially diluted, and we would thereafter have a controlling shareholder.

No longer managed for the benefit of shareholders. Because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns.

The senior preferred stock purchase agreement, senior preferred stock and warrant can only be canceled or modified with the consent of Treasury. For additional description of the conservatorship and our agreements with Treasury, see "Business—Conservatorship, Treasury Agreements and Housing Finance Reform."

The Single Security Initiative may adversely affect our financial results and contribute to declines in the liquidity or market value of our MBS. The Single Security Initiative also increases our counterparty credit risk and operational risk.

In 2014, FHFA directed Fannie Mae and Freddie Mac to develop a single common mortgage-backed security that will be fungible with then-outstanding Fannie Mae guaranteed mortgage pass-through certificates and that will be exchangeable by Freddie Mac for then-outstanding Freddie Mac PCs. FHFA's Single Security Initiative is intended to maximize liquidity for both Fannie Mae and Freddie Mac mortgage-backed securities in the TBA market. In March 2018, FHFA announced that Fannie Mae and Freddie Mac will start issuing UMBS in place of their current offerings of TBA-eligible mortgage-backed securities on June 3, 2019. The new UMBS will be issued by Fannie Mae and Freddie Mac through their joint venture, CSS, using a common securitization platform, or "CSP."

Historically, Fannie Mae MBS had a trading advantage over comparable Freddie Mac PCs. One of FHFA's stated objectives for the Single Security Initiative is to reduce the costs to Freddie Mac and taxpayers that result from differences in liquidity of Fannie Mae MBS and Freddie Mac PCs. In the last couple of years, as the implementation date of the Single Security Initiative has drawn closer, Fannie Mae MBS and comparable Freddie Mac PCs have been trading at or near parity. In addition to the loss of this trading advantage, uncertainty surrounding the implementation and overall impact of the Single Security Initiative could contribute to declines in the liquidity or market value of Fannie Mae MBS or otherwise adversely affect our financial condition or results of operations. The industry has expressed concerns that Fannie Mae and Freddie Mac UMBS may not be truly fungible. FHFA, as conservator, has previously responded to industry input by imposing alignment mandates on Fannie Mae and Freddie Mac, and, most recently, proposed a rule to align Fannie Mae and Freddie Mac programs, policies and practices that affect the prepayment rates of TBA-eligible MBS. If investors do not accept the fungibility of Fannie Mae and Freddie Mac UMBS, or if investors prefer Freddie Mac UMBS over Fannie Mae UMBS, it could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations, and could adversely affect the liquidity or market value of Fannie Mae MBS. In addition, we may be required to take certain actions to assist with the transition to UMBS, including, but not limited to, utilizing our retained mortgage portfolio to buy, sell and finance the purchase of securities for the purpose of minimizing disruptions to the TBA market. Furthermore, if we are no longer in conservatorship, it is unclear whether we may continue to align our program, policies and practices with those of Freddie Mac in support of UMBS.

The Single Security Initiative will also result in increased credit exposure and operational exposure to Freddie Mac. Once the initiative is implemented, investors will be able to commingle Fannie Mae UMBS and Freddie Mac UMBS in resecuritizations. At this time, we do not know how much Freddie Mac UMBS we will ultimately guarantee as a result. When we resecuritize Freddie Mac UMBS, our guaranty of principal and interest would extend to the underlying Freddie Mac UMBS. In addition, and as a result of operational changes in connection with the Single Security Initiative, in the event Freddie Mac were to fail (for credit or operational reasons) to make a payment on a payment date on Freddie Mac UMBS that we resecuritized, we would be responsible for making the entire payment on the resecuritized Freddie Mac UMBS in order for that security to be paid, and for any of our outstanding Fannie Mae MBS to be paid on that payment date. We do not anticipate that our pricing will reflect any incremental credit, liquidity or operational risk associated with our guaranty of resecuritized Freddie Mac UMBS. As a result, we could be dependent on Freddie Mac and on the senior preferred stock purchase agreements that we and Freddie Mac each have with Treasury to avoid a liquidity event or a default under our guaranty.

Once we begin issuing UMBS, we plan to begin using CSS and the CSP to perform certain operational functions associated with issuing and managing MBS on our behalf. Accordingly, we will be reliant on CSS and the CSP for the operation of many of our securitization activities. Our business activities could be adversely affected and the market for Fannie Mae MBS could be disrupted if the CSP were to fail or otherwise become unavailable to us or if CSS were unable to perform its obligations to us. Any such failure or unavailability could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations, and could adversely affect the liquidity or market value of our MBS. See "Our concurrent implementation of multiple new initiatives may increase our operational risk and result in one or more material weaknesses in our internal control over financial reporting" for a discussion of other operational risks associated with our implementation of the Single Security Initiative and related internal infrastructure upgrades.

We are limited in our ability to diversify our business and may be prohibited from undertaking activities that management believes would benefit our business.

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, as described in a previous risk factor, our business activities are subject to significant restrictions as a result of the conservatorship and the senior preferred stock purchase agreement. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market can therefore have a significant adverse effect on our results of operations, financial condition and net worth.

An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common and preferred stock.

Our common stock and preferred stock are now traded exclusively in the over-the-counter market. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected. In addition, the market price of our common stock and preferred stock is subject to significant volatility, which may be due to other factors described in these "Risk Factors," as well as speculation regarding our future, economic and political conditions generally, liquidity in the over-the-counter market in which our stock trades, and other factors, many of which are beyond our control. Such factors could cause the market price of our common stock and preferred stock to decline significantly, which may result in significant losses to holders of our common stock and preferred stock.

Credit Risk

We may incur significant credit losses and credit-related expenses on the loans in our book of business, which could materially adversely affect our earnings, financial condition and net worth.

We are exposed to a significant amount of mortgage credit risk on our $3.3 trillion total book of business, which includes mortgage assets that back our guaranteed Fannie Mae MBS, mortgage assets in our retained mortgage portfolio and credit enhancements we provide. Borrowers of mortgage loans that we own or guaranty may fail to make required payments of principal and interest on their mortgage loans, exposing us to the risk of credit losses and credit-related expenses. Increases in our credit-related expenses would reduce our earnings and adversely affect our financial condition and net worth.

The credit performance of loans in our book of business could deteriorate in the future, particularly if we experience national or regional declines in home prices, weakening economic conditions or high unemployment, resulting in higher credit losses and credit-related expenses. For example, borrowers affected by the recent government shutdown, or a future shutdown, may find it difficult to make payments on their mortgage loans, in which case, we may experience credit losses and credit-related expenses caused by borrowers' inability to make mortgage payments when due. Although we strengthened our underwriting and eligibility standards in late 2008 and 2009, we continue to have loans in our book of business that were originated under our prior standards. As of December 31, 2018, 7% of our single-family conventional guaranty book of business consisted of loans acquired prior to 2009 and another 11% consisted of Refi Plus loans, which represent refinancings of loans that were originated prior to June 2009. Moreover, some of the loans we acquired prior to 2009 that remain in our single-family book of business as of December 31, 2018 have certain characteristics that expose us to greater credit risk than other types of mortgage loans, such as Alt-A loans (2% of our single-family conventional guaranty book), and loans with FICO credit scores at origination of less than 620 (2% of our single-family conventional guaranty book). In addition, 18% of our single-family conventional guaranty book of business as of December 31, 2018 consisted of loans with original LTV ratios greater than 90%, which may pose a higher credit risk than loans with lower LTV ratios. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business in "MD&A—Single-Family Business" and our multifamily guaranty book of business in "MD&A—Multifamily Business." The processing of foreclosures of single-family loans continues to be slow in some states, which has negatively affected our foreclosure timelines and our single-family serious delinquency rate.

While we use certain credit enhancements to mitigate some of our potential future credit losses, these credit enhancements may provide less protection than we expect for a number of reasons. Some of the credit enhancements we use, such as mortgage insurance and credit insurance risk transfer transactions, are subject to the risk that the counterparties may not meet their obligations to us. Our credit risk transfer transactions have limited terms (typically 10 or 12.5 years), after which they provide limited or no further credit protection on the covered loans. Due to differences in accounting, there also could be a significant lag between the time when we recognize a provision for credit losses and when we recognize the related recovery from our CAS issued prior to the implementation of our CAS REMIC structure in November 2018. For a loan in a reference pool for a CAS issued between January 2016 and November 2018, a recovery is not recorded until after a loss has been confirmed. However, credit-related expenses related to these loans are currently recorded when it is probable that we have

incurred a loss, and upon our adoption of the CECL standard, will be recorded based on expected losses. In addition, our credit risk transfer transactions are not designed to shield us from all losses because we retain a portion of the risk of future losses on loans covered by these transactions, including all or a portion of the first loss risk in most transactions. Similarly, mortgage insurance does not protect us from all losses on covered loans. For example, mortgage insurance does not cover us from default risk for properties that suffered damages that were not covered by the hazard insurance we require. A property damaged by a flood that was outside a flood hazard area, where we require coverage, or a property damaged by an earthquake are the most likely scenarios where property damage may result in a default not covered by hazard insurance.

One or more of our institutional counterparties may fail to fulfill their contractual obligations to us, resulting in financial losses, business disruption and decreased ability to manage risk.

We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. Our primary exposures to institutional counterparty risk are with credit guarantors that provide credit enhancements on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, reinsurers and multifamily lenders with risk sharing arrangements; mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS; mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances; the financial institutions that issue the investments, including overnight bank deposits, held in our other investments portfolio; and derivatives counterparties. We also have counterparty exposure to custodial depository institutions; mortgage originators, investors and dealers; debt security dealers; financial guarantors; and document custodians.

We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders and commercial banks, and mortgage insurers, resulting in a significant credit concentration with respect to this industry. We may also have multiple exposures to particular counterparties, as many of our counterparties perform several types of services for us. For example, our lender customers or their affiliates may also act as derivatives counterparties, mortgage servicers, custodial depository institutions or document custodians. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, changes in its servicer rating, a reduction in liquidity, operational failures or insolvency. In the event of a bankruptcy or receivership of one of our counterparties, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets causing a decline in their value. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business or manage the risks to our business, which could materially adversely affect our business, results of operations, financial condition, liquidity and net worth. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could adversely affect our ability to conduct our operations and manage risk.

We depend on our ability to enter into derivatives transactions in order to manage the duration and prepayment risk of our retained mortgage portfolio. If we lose access to our derivatives counterparties, it could adversely affect our ability to manage these risks, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Our financial condition or results of operations may be adversely affected if mortgage servicers fail to perform their obligations to us.

We delegate the servicing of the mortgage loans in our guaranty book of business to mortgage servicers; we do not have our own servicing function. Functions performed by mortgage servicers on our behalf include collecting and delivering principal and interest payments, administering escrow accounts, monitoring and reporting delinquencies, performing default prevention activities and other functions. The inability of a mortgage servicer to perform these functions due to financial, operational, regulatory or other issues could negatively affect our ability to manage our book of business, delay or prevent our collection of amounts due to us, or otherwise result in the failure to perform other servicing duties, resulting in financial losses.

Our servicers also have an active role in our loss mitigation efforts. Our ability to actively manage the troubled loans that we own or guarantee, and to implement our homeownership assistance and foreclosure prevention efforts quickly and effectively, is limited by our reliance on our mortgage servicers. A decline in servicer performance on loss mitigation could adversely affect our credit performance, which could have a material adverse effect on our business, results of operations and financial condition.

A large portion of our single-family guaranty book is serviced by non-depository servicers. The potentially lower financial strength, liquidity and operational capacity of non-depository mortgage sellers and servicers compared with depository mortgage sellers and servicers may negatively affect their ability to satisfy their financial obligations or to service the loans on our behalf.

If we replace a mortgage servicer, we likely would incur costs and potential increases in servicing fees and could also face operational risks. If a mortgage servicer fails, it could result in a temporary disruption in servicing and loss mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. We are exposed to the risk that multifamily servicers could come under financial pressure, which could potentially result in a decline in the quality of the servicing they provide us.

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all.

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Although the financial condition of our primary mortgage insurer counterparties currently approved to write new business has improved in recent years, there is still a risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies.

With respect to primary mortgage insurers that we have approved to write coverage on loans sold to us, we currently do not differentiate pricing based on counterparty strength or operational performance. Additionally, we would not revoke a primary mortgage insurer's status as an eligible insurer unless there was a material violation of our private mortgage insurer eligibility requirements. Further, we do not generally select the provider of primary mortgage insurance on a specific loan, because the selection is usually made by the lender at the time the loan is originated. Accordingly, we have limited ability to manage our concentration risk with respect to primary mortgage insurers.

Three of our mortgage insurer counterparties who are currently not approved to write new business—PMI Mortgage Insurance Co. ("PMI"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC")—are currently in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums and process claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will pay claims only in part or fail to pay claims at all under existing insurance policies. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 72.5% of claims under its mortgage insurance policies in cash and is deferring the remaining 27.5%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay their deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations as well as interest on those obligations; however, RMIC remains in run-off. PMI, Triad and RMIC provided a combined $4.6 billion, or 3%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2018.

On at least a quarterly basis, we assess our mortgage insurer counterparties' respective abilities to fulfill their obligations to us, and our loss reserves take into account this assessment. If our assessment indicates their ability to pay claims has deteriorated significantly or if our projected claim amounts have increased, it could result in an increase in our loss reserves and our credit losses.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. Similarly, we rely on delegated servicing of loans and use of a variety of external resources to manage our REO inventory. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud.

The occurrence of a major natural or other disaster in the United States could negatively impact our credit losses and credit-related expenses.

We conduct our business in the single-family and multifamily residential mortgage markets and own or guarantee the performance of mortgage loans throughout the United States. The occurrence of a major natural or environmental disaster, terrorist attack, cyber attack, pandemic, or similar event (a "major disruptive event") in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area or, depending on the nature of the event, nationally. The severity and frequency of major disruptive events in certain geographic areas may also be impacted by climate change.

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a

geographically diverse book of business, a major disruptive event, depending on its magnitude, scope and nature, could generate significant credit losses and credit-related expenses.

Operational Risk

A failure in our operational systems or infrastructure, or those of third parties, could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation.

Shortcomings or failures in our internal processes, people, data management or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a failure could result in legislative or regulatory intervention or sanctions, liability to customers, financial losses, business disruptions and damage to our reputation. For example, our business is highly dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions, many of which are highly complex, across numerous and diverse markets that continuously and rapidly change and evolve. These transactions are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions or manage associated data with reliability and integrity. In addition, we rely on information provided by third parties in processing many of our transactions; that information may be incorrect or we may fail to properly manage or analyze it or properly monitor its data quality.

We rely upon business processes that are highly dependent on people, technology and equipment, data and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements and risk reporting are prepared. This reliance increases the risk that we may be exposed to financial, reputational or other losses as a result of inadequately designed internal processes or data management architecture, inflexible technology or the failure of our systems. While we continue to enhance our technology, infrastructure, operational controls and organizational structure in order to reduce our operational risk, these actions may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. In addition, our use of third-party service providers for some of our business and technology functions increases the risk that an operational failure by a third party will adversely affect us.

Our ability to manage and aggregate data may be limited by the effectiveness of our policies, programs, processes, systems and practices that govern how data is acquired, validated, stored, protected, processed and shared. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, paying agents, exchanges, clearinghouses or other financial intermediaries, including CSS, we use to facilitate our securities and derivatives transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both an individual basis and an industry-wide basis, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

Substantially all of our employees and business operations functions are consolidated in two metropolitan areas: Washington, DC and Plano, Texas. As a result of this concentration of our employees and facilities, a major disruptive event at either location could impact our ability to operate notwithstanding the business continuity plans and facilities that we have in place, including our out-of-region data center for disaster recovery. Moreover, because of the concentration of our employees in the Washington, DC and Plano metropolitan areas, if a regional disruption occurs in one of these areas, our employees may not be not able to occupy our facilities, work remotely, or communicate with or travel to other locations. Accordingly, the occurrence of a major disruptive event could materially adversely affect our ability to conduct our business and lead to financial losses.

A breach of the security of our systems or facilities, or those of third parties with which we do business, including as a result of cyber attacks, could damage or disrupt our business or result in the disclosure or misuse of confidential information, which could damage our reputation, increase our costs and cause losses.

Our operations rely on the secure receipt, processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including proprietary, confidential or personal information that is subject to privacy laws, regulations or contractual obligations. Information security risks for large institutions like us have significantly increased in recent years in part because of the proliferation of new technologies and the use of the Internet and telecommunications technologies to conduct or automate financial transactions. There have been several recent, highly publicized cases involving financial services companies, consumer-based companies and other organizations reporting the unauthorized disclosure of client, customer or other confidential information, as well as cyber attacks involving the dissemination, theft and destruction of corporate information, intellectual property, cash or other valuable assets. There have also been several highly publicized cases where hackers have requested “ransom” payments in exchange for not disclosing stolen customer information or for not disabling the target company’s computer or other systems.

We have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security threats. To date, cyber attacks have not had a material impact on our financial condition, results or business; however, we could suffer material financial or other losses in the future and we are not able to predict the severity of these attacks. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the current global economic and political environment, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, the ongoing shortage of qualified cyber security professionals, and the interconnectivity and interdependence of third parties to our systems.

Despite our efforts to ensure the integrity of our software, computers, systems and information, we may not be able to anticipate, detect or recognize threats to our systems and assets, or to implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched. We routinely identify cyber threats as well as vulnerabilities in our systems and work to address them, but these efforts may be insufficient. Further, these efforts involve costs that can be significant as cyber attack methods continue to rapidly evolve. Cyber attacks can originate from a variety of sources, including external parties who are affiliated with foreign governments or are involved with organized crime or terrorist organizations. Third parties may also attempt to induce employees, customers or other users of our systems to disclose sensitive information or provide access to our systems or network, or to our data or that of our counterparties or borrowers, and these types of risks may be difficult to detect or prevent.

The occurrence of a cyber attack, breach, unauthorized access, misuse, computer virus or other malicious code or other cyber security event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of confidential and other information that belongs to us, our customers, our counterparties, third-party service providers or borrowers that is processed and stored in, and transmitted through, our computer systems and networks. The occurrence of such an event could also result in damage to our software, computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations.

A cyber attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated. In addition, announcing that a cyber attack has occurred increases the risk of additional cyber attacks, and preparing for this elevated risk can delay the announcement of a cyber attack. All or any of these challenges could further increase the costs and consequences of a cyber attack.

In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Although we maintain insurance coverage relating to cybersecurity risks, our insurance may not be sufficient to provide adequate loss coverage in all circumstances.

Because we are interconnected with and dependent on third-party vendors, exchanges, clearing houses, fiscal and paying agents, and other financial intermediaries, including CSS, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. For example, if a data breach compromises the integrity of borrower data that we or our customers rely on, it could adversely affect our operations or financial results. Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the external storage and processing of our information, as well as customer, counterparty and borrower information, including on cloud-based systems. We also share this type of information with regulatory agencies and their vendors. While we engage in actions to mitigate our exposure resulting from our information-sharing activities, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.

We routinely transmit and receive personal, confidential and proprietary information by electronic means. We have discussed and worked with customers, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but we do not have, and may be unable to put in place, secure capabilities with all of our clients, vendors, service providers, counterparties and other third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

Our concurrent implementation of multiple new initiatives may increase our operational risk and result in one or more material weaknesses in our internal control over financial reporting.

We are currently implementing a number of initiatives in furtherance of both our and our conservator's strategic objectives. The magnitude of the many new initiatives we are undertaking may increase our operational risk. Many of these initiatives involve significant changes to our business processes, systems and infrastructure, and present significant operational challenges for us. For example, for the past several years we have been working with Freddie Mac and CSS on the development of a common securitization platform that, starting in 2019, we expect to use to perform certain aspects of the securitization process. This initiative, in coordination with related internal infrastructure upgrades, has resulted in significant changes to our systems and operations, and continues to involve a high degree of complexity. While implementation of each individual initiative creates operational challenges, implementing multiple initiatives during the same time period significantly increases these challenges. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a risk that implementing these changes could result in one or more material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results. In addition, FHFA, Treasury, other agencies of the U.S. government or Congress may require us to implement additional initiatives in the future that could further increase our operational risk.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures that result in a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information known to FHFA. As a result, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our financial statements. Given the structural nature of this material weakness, we do not expect to remediate this weakness while we are under conservatorship. See “Controls and Procedures” for further discussion of management’s conclusions on our disclosure controls and procedures and internal control over financial reporting.

Failure of our models to produce reliable results may adversely affect our ability to manage risk and make effective business decisions.

We make significant use of quantitative models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

Models are inherently imperfect predictors of actual results because they are based on historical data and assumptions regarding factors such as future loan demand, borrower behavior, creditworthiness and home price trends. Other potential sources of inaccurate or inappropriate model results include errors in computer code, bad data, misuse of data, or use of a model for a purpose outside the scope of the model’s design. Modeling often assumes that historical data or experience can be relied upon as a basis for forecasting future events, an assumption that may be especially tenuous in the face of unprecedented events.

Given the challenges of predicting future behavior, management judgment is used at every stage of the modeling process, from model design decisions regarding core underlying assumptions, to interpreting and applying final model output. To control for these inherent imperfections, our models are validated by an independent model risk management team within our Enterprise Risk Division and are subject to control requirements set by our model risk policies.

When market conditions change quickly and in unforeseen ways, there is an increased risk that the model assumptions and data inputs for our models are not representative of the most recent market conditions. Under such circumstances, we must rely on management judgment to make adjustments or overrides to our models. A formal model update is typically an extensive process that involves basic research, testing, independent validation and production implementation. In a rapidly changing environment, it may not be possible to update existing models quickly enough to properly account for the most recently available data and events. Management adjustments to modeled results are applied within the confines of the governance structure provided by a combination of our model risk management team and our management-level risk committees.

If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management decisions, including decisions affecting loan purchases, management of credit losses, guaranty fee pricing, and asset and liability management. Any of these decisions could adversely affect our business, results of operations, liquidity, net worth and financial condition. Furthermore, strategies we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable.

Liquidity and Funding Risk

Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations.

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. Market concerns about matters such as the extent of government support for our business, the future of our business (including future profitability, future structure, regulatory actions and our status as a government-sponsored enterprise) and the creditworthiness of the U.S. government could cause a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in recent years to issue debt of varying maturities at attractive pricing resulted from federal government support of our business. As a result, we believe that our status as a government-sponsored enterprise and continued federal government support is essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a government-sponsored enterprise could materially and adversely affect our liquidity, financial condition and results of operations. There can be no assurance that the government will continue to support us, or that our current level of access to debt funding will continue. In addition, due to our reliance on the U.S. government's support, our access to debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired. In this event, our alternative sources of liquidity—consisting of our other investments portfolio and the unencumbered mortgage assets in our retained mortgage portfolio—may not be sufficient to meet our liquidity needs.

We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Due to the current composition of our retained mortgage portfolio, including the significant amount of distressed assets in our portfolio, there would likely be insufficient market demand for large amounts of the mortgage-related assets in our portfolio over a prolonged period of time, which would limit our ability to borrow against or sell these assets. To the extent that we are able to obtain funding by pledging or selling mortgage-related assets as collateral, we anticipate that a discount would be applied that would reduce the value assigned to those assets. Depending on market conditions at the time, this discount could result in proceeds significantly lower than the current market value of these assets and could thereby reduce the amount of financing we obtain, which could reduce our earnings and net worth.

A decrease in the credit ratings on our senior unsecured debt could have an adverse effect on our ability to issue debt on reasonable terms, particularly if such a decrease were not based on a similar action on the credit ratings of the U.S. government. A decrease in our credit ratings also could require that we post additional collateral for our derivatives contracts.

A reduction in our credit ratings could materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and our results of operations. Credit ratings on our senior unsecured debt, as well as the credit ratings of the U.S. government, are primary factors that could affect our borrowing costs and our access to the debt capital markets. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt. As of December 31, 2018, our long-term debt was rated "AA+" by Standard & Poor's Ratings Services ("S&P"), "Aaa" by Moody's Investors Services ("Moody's") and "AAA" by Fitch Ratings Limited ("Fitch").

Because we rely on the U.S. government for capital support, in recent years, when a rating agency has taken an action relating to the U.S. government's credit rating, they have taken a similar action relating to our ratings at approximately the same time. S&P, Moody's and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government. As a result, if a future government shutdown or other event results in downgrades of the government's credit rating, our credit ratings may be similarly downgraded. We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact.

A reduction in our credit ratings also could cause derivatives clearing organizations or their members to demand that we post additional collateral for our derivative contracts. Our credit ratings and ratings outlook are included in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings."

Market and Industry Risk

Changes in interest rates or our loss of the ability to manage interest rate risk successfully could adversely affect our financial results and condition, and increase interest rate risk.

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of loss resulting from changes in the economic environment. Market risk includes interest rate risk, which is the risk of loss from adverse changes in the value of our assets or liabilities or our future earnings due to changes in interest rates. We describe these risks in more detail in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management." Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans.

Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivative instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

We mark to market changes in the estimated fair value of our derivatives through our earnings on a quarterly basis, but we do not similarly mark to market changes in some of the financial instruments that generate our interest rate risk exposures. As a result, changes in interest rates, particularly significant changes, can have a significant adverse effect on our earnings and net worth for the quarter in which the changes occur, depending on the nature of the changes and the derivatives we hold at that time. We have experienced significant fair value losses in some periods due to changes in interest rates, and we expect to continue to experience volatility from period to period in our financial results as a result of fair value losses or gains on our derivatives.

Changes in interest rates also can affect our credit losses. When interest rates increase, our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower's risk of default. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations, such as home equity lines of credit and second liens, that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases due to rising interest rates or a change in amortization, it increases the risk that the borrower may default on a loan we own or guarantee. In addition to increasing the risk of future borrower defaults, rising interest rates reduce expected future loan prepayments, which lengthens the expected life of our individually impaired loans and therefore increases our impairment related to concessions we have provided on those loans.

Changes in spreads could materially impact our results of operations, net worth and the fair value of our net assets.

Spread risk can result from changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Changes in market conditions, including changes in interest rates, liquidity, prepayment and default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in spreads. Changes in mortgage spreads have contributed to significant volatility in our financial results in certain periods, due to fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings, and this could occur again in a future period. Changes in mortgage spreads could cause significant fair value losses, and could adversely affect our near-term financial results and net worth. We do not actively manage or hedge our spread risk after we purchase mortgage assets, other than through asset monitoring and disposition.

Uncertainty relating to the determination of LIBOR and the potential phasing out of LIBOR after 2021 may adversely affect our results of operations, financial condition, liquidity and net worth.

We routinely engage in transactions involving financial instruments, such as the purchase of loans, securities or derivatives indexed to LIBOR and the sale of LIBOR-indexed securities. In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustain LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021.

Efforts are underway to identify and transition to a set of alternative reference rates. The transition may lead to disruption, including yield volatility on LIBOR-based securities. In addition, our use of an alternative reference rate may be subject to judicial challenges. If LIBOR ceases or changes in a manner that causes regulators or market participants to question its viability, financial instruments indexed to LIBOR could experience disparate outcomes based on their contractual terms, ability to amend those terms, market or product type, legal or regulatory jurisdiction, and a host of other factors. There can be no assurance that legislative or regulatory actions will dictate what happens if LIBOR ceases or is no longer viable. In addition, while the ARRC was created to identify best practices for market participants regarding alternative interest rates, there can be no assurance that broadly adopted industry practices will develop. Divergent industry or market participant actions could result after LIBOR is no longer available or viable. It is uncertain what effect any divergent industry practices will have on the performance of financial instruments, including ones that we own or have issued. Additionally, if an alternative method or index to LIBOR is selected, there can be no assurance that the alternative method or index will yield the same or similar economic

results over the lives of the financial instruments. These developments could have a material impact on us, adjustable-rate mortgage borrowers, investors, and our customers and counterparties. This could result in losses, reputational damage, litigation or costs, or otherwise adversely affect our business, financial condition, liquidity, net worth or results of operations.

Our business and financial results are affected by general economic conditions, particularly home prices and employment trends, and a deterioration of economic conditions or the financial markets may materially adversely affect our results of operations, net worth and financial condition.

Our business is significantly affected by the status of the U.S. economy, particularly home prices and employment trends. A prolonged period of slow growth in the U.S. economy or any deterioration in general economic conditions or the financial markets could materially adversely affect our results of operations, net worth and financial condition. At this point in time, it remains unknown what impact, if any, the recent government shutdown will have on the U.S. economy. For example, it is possible that another government shutdown could significantly dampen homebuying activity and negatively impact home prices. In general, if home prices decrease, or the unemployment rate increases, it could result in significantly higher levels of credit losses and credit-related expense.

Global economic conditions can also adversely affect our business and financial results. Changes or volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. Global economic conditions also could negatively affect the credit performance of the loans in our book of business.

Volatility or uncertainty in global political conditions also can significantly affect economic conditions and the financial markets. Currently, there is elevated uncertainty around several unresolved global political events, including the United Kingdom's exit from the European Union and ongoing international trade negotiations, that could impact the financial markets. We describe above the risks to our business posed by changes in interest rates and changes in spreads. In addition, as described above, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position.

A decline in activity in the U.S. housing market, increasing interest rates, or recent changes in tax laws could lower our business volumes or otherwise adversely affect our results of operations, net worth and financial condition.

Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to acquire, which in turn could reduce our net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for a decline in the rate of growth in mortgage originations.

Mortgage interest rates also affect our business volume. Rising interest rates generally result in fewer mortgage originations, particularly for refinances. An increase in interest rates, particularly if the increase is sudden and steep, could significantly reduce our business volume. Significant reductions in our business volume could adversely affect our results of operations and financial condition. The Federal Reserve has raised the target range for the federal funds rate nine times between December 2015 and December 2018. In January 2019, the Federal Reserve stated that, in light of global economic and financial developments and muted inflation pressures, it will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate. In determining the timing and size of future adjustments, it will assess realized and expected economic conditions relative to its employment and inflation objectives. This assessment will consider a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation. Moreover, the Federal Reserve's federal funds rate path is not the only factor that affects long-term interest rates. Accordingly, our business remains subject to the risk of sudden and steep interest rate increases.

The cap on mortgage interest deductions and other recent changes in tax laws may also adversely affect housing demand, home prices or other housing or mortgage market conditions, which could impact our business volumes and adversely affect our results of operations, net worth and financial condition.

The Federal Reserve's balance sheet normalization program could adversely affect our business, results of operations, financial condition, liquidity and net worth.

In recent years, the Federal Reserve has purchased a significant amount of mortgage-backed securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014 and concluded its asset purchase program in October 2014. From October 2014 through September 2017, the Federal Reserve maintained a policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities; therefore, it continued to purchase a significant amount of agency mortgage-backed securities. In October 2017, the Federal Reserve initiated a balance sheet normalization program. Under this program, the Federal Reserve's securities holdings will be gradually reduced by decreasing reinvestment of principal payments from those securities. In January 2019, the Federal Reserve revised its earlier guidance regarding conditions under which it could adjust the details of its balance sheet normalization program. It stated that it is prepared to adjust balance sheet normalization in light of economic and financial developments. We expect the Federal Reserve's balance sheet normalization program likely will result, in the longer term, in increases in mortgage interest rates and a widening of mortgage spreads, which could adversely affect our

business volume and reduce demand for Fannie Mae MBS. If this occurs, it could adversely affect our business, results of operations, financial condition, liquidity and net worth.

Legal, Regulatory and Other Risks

Our business and financial results could be materially adversely affected by legal or regulatory proceedings.

We are a party to various claims and other legal proceedings. We are periodically involved in government investigations. We may be required to establish accruals and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses.

Developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and government investigations may differ from our expectations and exceed any amounts for which we have accrued or require adjustments to such accruals. In addition, responding to these matters could divert significant internal resources away from managing our business.

Regulatory changes in the financial services industry may negatively impact our business.

Changes in the regulation of the financial services industry are affecting and are expected to continue to affect many aspects of our business. Examples of regulatory changes that have affected us or may affect us in the future include: rules requiring the clearing of certain derivatives transactions and margin and capital rules for uncleared derivative trades, which impose additional costs on us; the CFPB's "ability-to-repay" rule, which has limited the types of products we can acquire and could impact the volume of loans sold to us in the future; and the development of single-counterparty credit limit regulations, which could cause our customers to change their business practices.

Changes to financial regulations could affect our business directly or indirectly if they affect our customers and counterparties. Changes in regulations applicable to U.S. banks could also affect our business, as U.S. banks purchase a large amount of our debt securities and MBS. New or revised liquidity or capital requirements applicable to U.S. banks could materially affect demand by those banks for our debt securities and MBS in the future.

The actions of Treasury, the Commodity Futures Trading Commission, the SEC, the FDIC, the Federal Reserve and international central banking authorities directly or indirectly impact financial institutions' cost of funds for lending, capital-raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

Overall, these legislative and regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition, results of operations and cash flows. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to implement, and can materially impact how we record and report our financial condition, results of operations and cash flows. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance, such as the CECL standard, could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.

In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also relies on models in making these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See "Note 1, Summary of Significant Accounting Policies" for a description of our significant accounting policies.

We have identified two of our accounting policies as being critical to the presentation of our financial condition and results of operations. These accounting policies are described in "MD&A—Critical Accounting Policies and Estimates." We believe these policies are critical because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Because our financial statements involve estimates for amounts that are very large, even a small change in the estimate can have a significant impact for the reporting period. For example, because our allowance for loan losses is so large, even a change that has a small impact relative to the size of this allowance can have a meaningful impact on our results for the quarter in which we make the change.

Many of our accounting methods involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our actual results could differ significantly from those generated by our models. As a result, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

Legislative, regulatory or judicial actions could negatively impact our business, results of operations, financial condition or net worth.

Legislative, regulatory or judicial actions at the federal, state or local level could negatively impact our business, results of operations, financial condition, liquidity or net worth. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. For example, we could be affected by:

- Legislative or regulatory changes that expand our or our servicers' responsibility and liability for securing, maintaining or otherwise overseeing vacant properties prior to foreclosure, which could increase our costs.
- State laws and court decisions granting new or expanded priority rights over our mortgages to homeowners associations or through initiatives that provide a lien priority to loans used to finance energy efficiency or similar improvements, which could adversely affect our ability to recover our losses on affected loans.
- Legal challenges relating to MERSCORP Holdings, Inc. and the MERS® System (an electronic registry widely used to track servicing rights and ownership of loans in the United States), which could negatively affect our ability to use the MERS System and adversely affect our ability to enforce our rights with respect to the large portion of our loans that are registered and tracked in the MERS System. These challenges could result in court decisions that increase the costs and time it takes to record loans or foreclose on loans.

In addition, as described above, our business could be materially adversely affected by legislative and regulatory actions relating to housing finance reform or the financial services industry, or by legal or regulatory proceedings.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own or lease six office facilities in the Washington, DC metropolitan area with a total square footage of approximately 2,770,000 square feet, including our principal office at 1100 15th St, NW, Washington, DC, which is leased.

We also lease approximately 448,000 square feet of office space in other regional locations in the United States, including in Plano, Texas.

We sold three Northern Virginia office facilities in September 2018. We currently occupy these three facilities pursuant to lease arrangements. We expect the total square footage we lease to decrease following the completion of upcoming office moves in Northern Virginia.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in "Note 16, Commitments and Contingencies," which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. However, litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We establish an accrual for legal claims only when a loss is probable and we can reasonably estimate the amount of such loss. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. If certain of these matters are determined against us, FHFA or Treasury, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and August 2018, preferred and common stockholders of Fannie Mae and Freddie Mac filed lawsuits in multiple federal courts against one or more of the United States, Treasury and FHFA, challenging actions taken by the defendants relating to the Fannie Mae and Freddie Mac senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, the payment of dividends to Treasury under the net worth sweep dividend provisions, and FHFA's decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury prior to the August 2012 amendments. Some of the lawsuits also challenge the constitutionality of FHFA's structure. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. The cases that remain pending or were terminated after September 30, 2018 are as follows:

District of Columbia. Fannie Mae is a defendant in four cases pending in the U.S. District Court for the District of Columbia—a consolidated putative class action and three additional cases. On September 28, 2018, the court dismissed all of the plaintiffs' claims in three of these cases (including the consolidated class action), except for their claims for breach of an implied covenant of good faith and fair dealing. In the fourth case, which was filed on May 21, 2018, defendants filed a motion to dismiss the case on July 12, 2018. All four cases are described in "Note 16, Commitments and Contingencies."

Southern District of Texas. On October 20, 2016, preferred and common stockholders filed a complaint against FHFA and Treasury in the U.S. District Court for the Southern District of Texas. On May 22, 2017, the court dismissed the case. On July 16, 2018, the U.S Court of Appeals for the Fifth Circuit affirmed the dismissal, and on November 15, 2018 the Fifth Circuit granted plaintiffs' and FHFA's petitions for rehearing *en banc*.

Western District of Michigan. On June 1, 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the Western District of Michigan. FHFA and Treasury moved to dismiss the case on September 8, 2017, and plaintiffs filed a motion for summary judgment on October 6, 2017.

District of Minnesota. On June 22, 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the District of Minnesota. The court dismissed the case on July 6, 2018, and plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Eighth Circuit on July 10, 2018.

Eastern District of Pennsylvania. On August 16, 2018, common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the Eastern District of Pennsylvania. FHFA and Treasury moved to dismiss the case on November 16, 2018, and plaintiffs filed a motion for summary judgment on December 21, 2018.

U.S. Court of Federal Claims. Numerous cases are pending against the United States in the U.S. Court of Federal Claims. Fannie Mae is a nominal defendant in three of these cases: *Fisher v. United States of America*, filed on December 2, 2013; *Rafter v. United States of America*, filed on August 14, 2014; and *Perry Capital LLC v. United States of America*, filed on August 15, 2018. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The *Fisher* plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the *Rafter* and *Perry Capital* plaintiffs are pursing the claim both derivatively and directly against the United States. Plaintiffs in *Rafter* also allege direct and derivative breach of contract claims against the government. The *Perry Capital* plaintiffs allege similar breach of contract claims, as well as breach of fiduciary duty claims against the government. Plaintiffs in *Fisher* request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in *Rafter* and *Perry Capital* seek just compensation for themselves on their direct claims and payment of damages to Fannie Mae on their derivative claims. The United States filed a motion to dismiss the *Fisher* and *Rafter* cases on August 1, 2018.

District of Delaware. Fannie Mae is a nominal defendant in *Jacobs v. FHFA*, filed on August 17, 2015 against FHFA and Treasury in the U.S. District Court for the District of Delaware. Plaintiffs allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements violate Delaware law. Plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae and directly against the government. The court dismissed the case on November 27, 2017, and plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit on December 22, 2017. On November 14, 2018, the U.S. Court of Appeals for the Third Circuit affirmed the district court's dismissal.

LIBOR Lawsuit

On October 31, 2013, Fannie Mae filed a lawsuit in the U.S. District Court for the Southern District of New York against Barclays Bank PLC, UBS AG, The Royal Bank of Scotland Group PLC, The Royal Bank of Scotland PLC, Deutsche Bank AG, Credit Suisse Group AG, Credit Suisse International, Bank of America Corp., Bank of America, N.A., Citigroup Inc., Citibank, N.A., J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, N.A., Coöperative Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank"), the British Bankers Association (the "BBA") and BBA LIBOR Ltd. alleging they manipulated LIBOR. On October 6, 2014, Fannie Mae filed an amended complaint alleging, among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The amended complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, unjust enrichment, fraud and conspiracy to commit fraud. The defendants filed motions to dismiss the lawsuit, which the court granted in part and denied in part on August 4, 2015. The court ruled that Fannie Mae had adequately pled fraud, breach of contract and unjust enrichment claims against most defendants, but that the applicable statute of limitations periods precluded some contract and unjust enrichment claims from proceeding. The court dismissed the BBA, Rabobank, and Credit Suisse Group AG from the lawsuit on personal jurisdiction grounds.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

Our common stock is traded in the over-the-counter market and quoted on the OTCQB, operated by OTC Markets Group Inc., under the ticker symbol "FNMA." Over-the-counter market quotations for our common stock reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. The transfer agent and registrar for our common stock is Computershare Trust Company, N.A., and its address is P.O. Box 50500, Louisville, KY 40233 or, for overnight correspondence, 462 South 4th Street, Suite 1600, Louisville, KY 40202.

Holders

As of January 31, 2019, we had approximately 9,000 registered holders of record of our common stock. In addition, as of January 31, 2019, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

Equity Compensation Plan Information

As of December 31, 2018, we had no outstanding options, warrants or rights under any equity compensation plan. Although we have a legacy equity compensation plan that was previously approved by shareholders, our 1985 Employee Stock Purchase Plan, we do not anticipate issuing additional shares under that plan. Moreover, we are prohibited from issuing any stock or other equity securities as compensation without the approval of FHFA and the prior written consent of Treasury under the senior preferred stock purchase agreement.

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2018, we did not sell any equity securities.

Information about Certain Securities Issuances by Fannie Mae

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Because the securities we issue are exempted securities under the Securities Act of 1933, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our website or in a current report on Form 8-K that we file with the SEC, in accordance with a "no-action" letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae's universal debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our obligations pursuant to the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements.

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2018.

Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2018, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Our results of operations for any one period are not necessarily indicative of the results to be expected in any other period. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes, "MD&A" and "Risk Factors."

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	**$21,930**	$22,960	$22,261	$22,757	$25,855
Net income attributable to Fannie Mae	**15,959**	2,463	12,313	10,954	14,208
New business purchase data:					
New business purchases[2]	**$512,023**	$569,616	$637,425	$515,541	$409,834
Performance ratios:					
Net interest yield[3]	**0.63 %**	0.64 %	0.67 %	0.68 %	0.63 %
Credit (income) loss ratio (in basis points):[4]					
Single-family	**8.5 bps**	10.2 bps	11.6 bps	35.8 bps	18.3 bps
Multifamily	**0.6**	(0.7)	(0.2)	(2.7)	(0.3)

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in millions)				
Balance sheet data:					
Investments in securities	**$45,296**	$39,522	$48,925	$60,138	$62,158
Mortgage loans, net of allowance	**3,249,395**	3,178,525	3,079,753	3,019,644	3,019,494
Total assets	**3,418,318**	3,345,529	3,287,968	3,221,917	3,248,176
Short-term debt	**24,896**	33,756	35,579	71,950	106,572
Long-term debt	**3,367,024**	3,296,298	3,226,737	3,125,721	3,115,583
Total liabilities	**3,412,078**	3,349,215	3,281,897	3,217,858	3,244,456
Senior preferred stock	**120,836**	117,149	117,149	117,149	117,149
Preferred stock	**19,130**	19,130	19,130	19,130	19,130
Total Fannie Mae stockholders' equity (deficit)	**6,240**	(3,686)	6,071	4,030	3,680
Net worth surplus (deficit)	**6,240**	(3,686)	6,071	4,059	3,720

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in millions)				
Book of business data:					
Guaranty book of business[5]	**$3,269,152**	$3,211,858	$3,134,005	$3,076,556	$3,089,174
Credit quality:					
Total troubled debt restructurings on accrual status	**$98,375**	$110,130	$127,494	$140,964	$145,294
Total nonaccrual loans[6]	**32,150**	47,369	44,450	49,412	64,959
Loss reserves[7]	**(14,252)**	(19,400)	(23,835)	(28,590)	(36,787)
Loss reserves as a percentage of guaranty book of business:					
Single-family	**0.49 %**	0.65 %	0.83 %	1.00 %	1.28 %
Multifamily	**0.08**	0.09	0.08	0.12	0.20

(1) Consists of net interest income and fee and other income.

(2) New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps.

(3) Calculated based on net interest income for the period divided by the average balance of total interest-earning assets during the period, expressed as a percentage.

(4) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income) for the reporting period divided by the average guaranty book of business during the period, expressed in basis points.

(5) Refers to the sum of the unpaid principal balance of: (a) Fannie Mae MBS outstanding; (b) mortgage loans of Fannie Mae; and (c) other credit enhancements that we provide on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(6) Total amounts based on recorded investment of nonaccrual loans. We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is 60 days or more past due. Multifamily loans are placed on nonaccrual status when the loan becomes 90 days or more past due according to its contractual terms or is deemed individually impaired. See "Note 1, Summary of Significant Accounting Policies" for more information about our policies on nonaccrual loans.

(7) Consists of our allowance for loan losses and reserve for guaranty losses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2018 and related notes to the consolidated financial statements.

Key Market Economic Indicators

Below we discuss how certain macroeconomic conditions can significantly influence our business and financial results.

Interest Rates

Selected Benchmark Interest Rates[1]
(As of period end)

3-month LIBOR
2-year swap rate
10-year swap rate
10-year Treasury rate
30-year Fannie Mae MBS par coupon rate

(1) According to Bloomberg.

How Interest Rates Can Affect Our Financial Results

- *Net interest income*. In a rising interest rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income from cost basis adjustments on mortgage loans and related debt. Conversely, in a declining interest rate environment, our mortgage loans tend to prepay faster, resulting in higher net amortization income from cost basis adjustments on mortgage loans and related debt.
- *Fair value gains (losses*). We have exposure to fair value gains and losses resulting from changes in interest rates, primarily through our risk management derivatives and mortgage commitment derivatives, which we mark to market. Generally, we experience fair value losses when swap rates decrease and fair value gains when swap rates increase; however, because the composition of our derivative position varies across the yield curve, different yield curve changes (*e.g.*, parallel, steepening or flattening) will generate different gains and losses.
- *Credit-related income (expense).* Increases in mortgage interest rates tend to lengthen the expected lives of our modified loans, which increases the impairment on these loans and results in increases in the provision for credit losses. Conversely, decreases in mortgage interest rates tend to shorten the expected lives of our modified loans, which reduces the impairment on these loans and results in decreases in the provision for credit losses.

Housing and Mortgage Market

Home Prices

We expect home prices on a national basis to continue to grow in 2019, but at a more moderate pace than in 2018. If the government partially shuts down again and it significantly dampens homebuying activity in the second quarter, home prices will be negatively impacted. We also expect significant regional variation in the timing and rate of home price growth.

How home prices can affect our financial results

- Actual and forecasted home prices impact our provision or benefit for credit losses.
- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency and default rates.
- As home prices increase, the severity of losses we incur on defaulted loans that we hold or guarantee decreases because the amount we can recover from the properties securing the loans increases. Decreases in home prices increase the losses we incur on defaulted loans.

(1) Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae's home price index is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's home price index excludes prices on properties sold in foreclosure. The reported home price change reflects the percentage change in Fannie Mae's home price index from the fourth quarter of the prior year to the fourth quarter of the reported year. Fannie Mae's home price estimates are based on preliminary data and are subject to change as additional data become available.

Housing Activity

Overall Housing Activity

Overall housing activity was mixed in 2018 compared with 2017. Single-family housing starts, which account for the largest share of residential construction activity, increased 3.6% to a rate of 879,000 units through November 2018, whereas multifamily housing starts increased 8.7%. Total existing home sales of 5.3 million units in 2018 represent a decrease of 3.1% from 2017, compared with a 1.1% increase in 2017 from 2016, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short sales," (together, "distressed sales") accounted for 2% of existing home sales in December 2018, compared with 5% in December 2017.

(1) According to U.S. Census Bureau and subject to revision. Data for 2018 are average seasonally adjusted annualized rates through November 2018, the most recent period for which data are available.

How housing activity can affect our financial results

- Homebuilding has typically been a leading indicator of broader economic indicators, such as GDP and the unemployment rate. Residential construction activity tends to soften prior to a weakness in the broader economy and can improve prior to a recovery in broader economic activity. Broader economic indicators can affect several mortgage market factors including the demand for both single-family and multifamily housing and the level of loan delinquencies.

- Fewer housing starts results in fewer properties being available for purchase, which can lower the volume of originations in the mortgage market.
- Construction activity can also contribute to credit losses. When the pace of construction does not meet demand, the resulting growth in home prices can increase the risk profile of new purchase money mortgage loans and increase the risk of default if home prices subsequently decline. Reduced construction may also coincide with a broader deterioration in housing conditions, which may result in higher future delinquencies and greater losses on defaulted loans.

GDP, Unemployment Rate and Personal Income

(1) According to the U.S. Bureau of Labor Statistics and subject to revision.

(2) Personal income growth through the third quarter of 2018 is the quarterly average of the monthly series calculated by the Federal Reserve Bank of St. Louis. Growth in the fourth quarter of 2018 is an internal estimate, based on data through November 2018, the most recent data available.

(3) According to the U.S. Bureau of Economic Analysis and subject to revision. GDP growth reported for the fourth quarter of 2018 is based on Fannie Mae's January 2019 forecast.

According to the U.S. Bureau of Labor Statistics as of January 2019, the economy created an estimated 2.7 million non-farm jobs in 2018 and 2.3 million non-farm jobs in 2017. In January 2019, non-farm payrolls increased by 304,000 jobs. The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time and those not looking for work, but who want to work and are available for work, declined to 7.6% in December 2018 from 8.1% in December 2017.

At this point, it remains unknown what impact, if any, the recent government shutdown will have on broad economic activity, including GDP and labor market conditions.

How GDP, the unemployment rate and personal income can affect our financial results

- Changes in GDP, the unemployment rate and personal income can affect several mortgage market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Decreases in the unemployment rate typically result in lower levels of delinquencies, which often correlate to a decrease in credit losses.
- Slower growth or outright declines in personal income heightens the risk of delinquency by reducing homeowners' ability to pay their mortgages. Slower income growth could also lower affordability, constraining home sales and mortgage originations.

Consolidated Results of Operations

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

Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2018	**2017**	**2016**	**2018 vs. 2017**	**2017 vs. 2016**
	(Dollars in millions)				
Net interest income	**$20,951**	$20,733	$21,295	$218	$(562)
Fee and other income	**979**	2,227	966	(1,248)	1,261
Net revenues	**21,930**	22,960	22,261	(1,030)	699
Investment gains, net	**952**	1,522	1,256	(570)	266
Fair value gains (losses), net	**1,121**	(1,211)	(1,081)	2,332	(130)
Administrative expenses	**(3,059)**	(2,737)	(2,741)	(322)	4
Credit-related income:					
Benefit for credit losses	**3,309**	2,041	2,155	1,268	(114)
Foreclosed property expense	**(617)**	(521)	(644)	(96)	123
Total credit-related income	**2,692**	1,520	1,511	1,172	9
TCCA fees	**(2,284)**	(2,096)	(1,845)	(188)	(251)
Other expenses, net	**(1,253)**	(1,511)	(1,028)	258	(483)
Income before federal income taxes	**20,099**	18,447	18,333	1,652	114
Provision for federal income taxes	**(4,140)**	(15,984)	(6,020)	11,844	(9,964)
Net income	**$15,959**	$2,463	$12,313	$13,496	$(9,850)
Total comprehensive income	**$15,611**	$2,257	$11,665	$13,354	$(9,408)

Net Interest Income

We have two primary sources of net interest income:

- guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and
- the difference between interest income earned on the assets in our retained mortgage portfolio and our other investments portfolio (collectively, our "portfolios") and the interest expense associated with the debt that funds those assets. See "Retained Mortgage Portfolio" and "Liquidity and Capital Management—Liquidity Management—Other Investments Portfolio" for more information about our portfolios.

Guaranty fees consist of two primary components:

- base guaranty fees that we receive over the life of the loan; and
- upfront fees that we receive at the time of loan acquisition primarily related to single-family loan level pricing adjustments and other fees we receive from lenders, which are amortized into net interest income as cost basis adjustments over the contractual life of the loan. We refer to this as amortization income.

We recognize almost all of our guaranty fee revenue in net interest income because we consolidate the substantial majority of loans underlying our Fannie Mae MBS in consolidated trusts on our consolidated balance sheets. Those guaranty fees are the primary component of the difference between the interest income on loans in consolidated trusts and the interest expense on the debt of consolidated trusts.

The table below displays the components of our net interest income from our portfolios and our guaranty book of business.

Components of Net Interest Income

	For the Year Ended December 31,			Variance	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
	(Dollars in millions)				
Net interest income from portfolios[1]	**$4,426**	$4,340	$5,475	$86	$(1,135)
Net interest income from guaranty book of business:					
Base guaranty fee income, net of TCCA	**8,615**	8,139	7,495	476	644
Base guaranty fee income related to TCCA[2]	**2,284**	2,096	1,845	188	251
Net amortization income	**5,626**	6,158	6,480	(532)	(322)
Total net interest income from guaranty book of business	**16,525**	16,393	15,820	132	573
Total net interest income	**$20,951**	$20,733	$21,295	$218	$(562)

(1) Includes interest income from assets held in our retained mortgage portfolio and our other investments portfolio, as well as other assets used to generate lender liquidity. Also includes interest expense on our outstanding Connecticut Avenue Securities® of $1.4 billion, $1.0 billion and $617 million in 2018, 2017 and 2016, respectively.

(2) Revenues generated by the 10 basis point guaranty fee increase we implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Net interest income from portfolios:

- Increased in 2018 compared with 2017 due to an increase in income from our other investments portfolio, primarily due to higher interest rates in 2018 compared with 2017.
- Decreased in 2017 compared with 2016 primarily due to a decline in net interest income from our retained mortgage portfolio due to a decline in the average balance of this portfolio as we continued to reduce it. See "Retained Mortgage Portfolio" for more information.

Net interest income from base guaranty fees increased in 2018 compared with 2017 and in 2017 compared with 2016 due to:

- An increase in the size of our guaranty book of business and loans with higher base guaranty fees comprising a larger part of our guaranty book of business in 2018 than in 2017 and in 2017 than in 2016.

Net amortization income from our guaranty book of business decreased in 2018 compared with 2017 and in 2017 compared with 2016 due to:

- Higher interest rates in 2018 compared with 2017 and in 2017 compared with 2016, which caused loan prepayments to slow down, resulting in lower amortization of cost basis adjustments on mortgage loans of consolidated trusts and related debt.

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheet at fair value. We recognize the difference between the initial fair value and the carrying value of these instruments as cost basis adjustments, either as premiums or discounts, in our consolidated balance sheet. We amortize these cost basis adjustments as yield adjustments over the contractual lives of the loans or debt**.** On a net basis, for mortgage loans and debt of consolidated trusts, we are in a premium position with respect to debt of consolidated trusts, which represents deferred income we will recognize in our consolidated statements of operations and comprehensive income as amortization income in future periods.

Deferred Income Represented by Net Premium Position on Debt of Consolidated Trusts (Dollars in billions)

The timing of when we recognize amortization income can vary based on a number of factors, the most significant of which is interest rates. In a rising interest rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income. Conversely, in a declining interest rate environment, our mortgage loans tend to prepay faster, resulting in higher net amortization income.

A rising interest rate environment and possible decreases in our retained mortgage portfolio could result in a decrease in our net interest income in 2019.

Analysis of Net Interest Income

The table below displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages.

Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	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	**$149,878**	**$6,641**	**4.43 %**	$186,216	$7,726	4.15 %	$228,786	$9,376	4.10 %
Mortgage loans of consolidated trusts	**3,083,060**	**107,964**	**3.50**	2,966,541	100,593	3.39	2,838,453	95,266	3.36
Total mortgage loans[1]	**3,232,938**	**114,605**	**3.54**	3,152,757	108,319	3.44	3,067,239	104,642	3.41
Mortgage-related securities	**10,744**	**440**	**4.10**	12,984	450	3.47	21,430	875	4.08
Non-mortgage-related securities[2]	**55,809**	**1,126**	**1.99**	55,778	591	1.06	54,355	261	0.48
Federal funds sold and securities purchased under agreements to resell or similar arrangements	**37,338**	**742**	**1.96**	37,369	373	1.00	27,917	141	0.51
Advances to lenders	**4,102**	**136**	**3.27**	4,506	123	2.73	4,583	102	2.23
Total interest-earning assets	**$3,340,931**	**$117,049**	**3.50 %**	$3,263,394	$109,856	3.37 %	$3,175,524	$106,021	3.34 %
Interest-bearing liabilities:									
Short-term funding debt	**$25,835**	**$(464)**	**1.77 %**	$29,651	$(246)	0.83 %	$51,270	$(202)	0.39 %
Long-term funding debt	**200,478**	**(4,557)**	**2.27**	253,138	(5,287)	2.09	292,165	(6,329)	2.17
Connecticut Avenue Securities® ("CAS")	**24,247**	**(1,391)**	**5.74**	19,631	(1,006)	5.12	13,780	(617)	4.48
Total debt of Fannie Mae	**250,560**	**(6,412)**	**2.56**	302,420	(6,539)	2.16	357,215		