

FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 17, 2017

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, 2016

Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation 52-0883107
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3900 Wisconsin Avenue, NW 20016
Washington, DC (zip code)

(Address of principal executive offices)

Registrant's telephone number, including area code:

(800) 2FANNIE (800-232-6643)

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

Title of Each Class Name of Each Exchange on Which Registered

None

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

Common Stock, without par value

(Title of class)

8.25% Non-Cumulative Preferred Stock, Series T, stated value \$25 per share

(Title of class)

8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value \$50 per share

(Title of class)

Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value \$25 per share

(Title of class)

7.625% Non-Cumulative Preferred Stock, Series R, stated value \$25 per share

(Title of class)

6.75% Non-Cumulative Preferred Stock, Series Q, stated value \$25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series P, stated value \$25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series O, stated value \$50 per share

(Title of class)

5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value \$100,000 per share

(Title of class)

5.50% Non-Cumulative Preferred Stock, Series N, stated value \$50 per share

(Title of class)

4.75% Non-Cumulative Preferred Stock, Series M, stated value \$50 per share

(Title of class)

5.125% Non-Cumulative Preferred Stock, Series L, stated value \$50 per share

(Title of class)

5.375% Non-Cumulative Preferred Stock, Series I, stated value \$50 per share

(Title of class)

5.81% Non-Cumulative Preferred Stock, Series H, stated value \$50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series G, stated value \$50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series F, stated value \$50 per share

(Title of class)

5.10% Non-Cumulative Preferred Stock, Series E, stated value \$50 per share

(Title of class)

5.25% Non-Cumulative Preferred Stock, Series D, stated value \$50 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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.

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

	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company
Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	(Do not check if a smaller reporting company)		<input type="checkbox"/>

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

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 OTC Bulletin Board on June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$2.3 billion.

As of January 31, 2017, there were 1,158,082,750 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

	Page
PART I	1
Item 1. <u>Business</u>	<u>1</u>
<u>Introduction</u>	<u>1</u>
<u>Executive Summary</u>	<u>2</u>
<u>Residential Mortgage Market</u>	<u>11</u>
<u>Business Segments</u>	<u>11</u>
<u>Mortgage Securitizations</u>	<u>13</u>
<u>Conservatorship and Treasury Agreements</u>	<u>15</u>
Legislation and Regulation	<u>20</u>
<u>Our Customers</u>	<u>30</u>
<u>Competition</u>	<u>30</u>
<u>Employees</u>	<u>31</u>
<u>Where You Can Find Additional Information</u>	<u>31</u>
<u>Forward-Looking Statements</u>	<u>31</u>
Item 1A. <u>Risk Factors</u>	<u>32</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>50</u>
Item 2. <u>Properties</u>	<u>50</u>
Item 3. <u>Legal Proceedings</u>	<u>51</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>53</u>
PART II	53
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>53</u>
Item 6. <u>Selected Financial Data</u>	<u>55</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>57</u>
<u>Critical Accounting Policies and Estimates</u>	<u>57</u>
<u>Consolidated Results of Operations</u>	<u>59</u>
<u>Consolidated Balance Sheet Analysis</u>	<u>72</u>
Retained Mortgage Portfolio	<u>74</u>
Mortgage Credit Book of Business	<u>75</u>
<u>Business Segments</u>	<u>76</u>
<u>Liquidity and Capital Management</u>	<u>111</u>
<u>Off-Balance Sheet Arrangements</u>	<u>121</u>
<u>Risk Management</u>	<u>121</u>
<u>Impact of Future Adoption of New Accounting Guidance</u>	<u>136</u>
<u>Glossary of Terms Used in This Report</u>	<u>137</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>140</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>140</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>140</u>
Item 9A. <u>Controls and Procedures</u>	<u>140</u>
Item 9B. <u>Other Information</u>	<u>146</u>
PART III	146
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>146</u>
<u>Directors</u>	<u>146</u>
<u>Corporate Governance</u>	<u>149</u>
<u>Executive Officers</u>	<u>153</u>

Item 11. <u>Executive Compensation</u>	<u>155</u>
<u>Compensation Discussion and Analysis</u>	<u>155</u>
<u>Compensation Committee Report</u>	<u>173</u>
<u>Compensation Risk Assessment</u>	<u>173</u>
<u>Compensation Tables</u>	<u>174</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>181</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>183</u>
<u>Policies and Procedures Relating to Transactions with Related Persons</u>	<u>183</u>
<u>Transactions with Related Persons</u>	<u>185</u>
<u>Director Independence</u>	<u>187</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>190</u>
<u>PART IV</u>	<u>191</u>
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>191</u>
<u>INDEX TO EXHIBITS</u>	<u>E-1</u>
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>F-1</u>

TABLE REFERENCE

Table	Description	Page
1	2015 Housing Goals Performance	27
2	Summary of Consolidated Results of Operations	60
3	Analysis of Net Interest Income and Yield	61
4	Rate/Volume Analysis of Changes in Net Interest Income	62
5	Fair Value Losses, Net	63
6	Total Loss Reserves	66
7	Changes in Combined Loss Reserves	67
8	Troubled Debt Restructurings and Nonaccrual Loans	69
9	Credit Loss Performance Metrics	70
10	Credit Loss Concentration Analysis	71
11	Summary of Consolidated Balance Sheets	72
12	Summary of Mortgage-Related Securities at Fair Value	73
13	Retained Mortgage Portfolio	74
14	Retained Mortgage Portfolio Profile	75
15	Composition of Mortgage Credit Book of Business	76
16	Single-Family Housing and Mortgage Market Indicators	80
17	Single-Family Business Key Performance Data	81
18	Single-Family Business Financial Results	82
19	Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2016	87
20	Credit Risk Transfer Transactions	89
21	Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period	91
22	Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business	92
23	Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year	97
24	Delinquency Status and Activity of Single-Family Conventional Loans	98
25	Single-Family Conventional Seriously Delinquent Loan Concentration Analysis	99
26	Statistics on Single-Family Loan Workouts	101
27	Single-Family Troubled Debt Restructuring Activity	102
28	Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification	102
29	Single-Family Foreclosed Properties	103
30	Single-Family Acquired Property Concentration Analysis	104
31	Multifamily Business Key Performance Data	108
32	Multifamily Business Financial Results	109
33	Multifamily Guaranty Book of Business Key Risk Characteristics	110
34	Activity in Debt of Fannie Mae	114
35	Outstanding Short-Term Borrowings and Long-Term Debt	116
36	Outstanding Short-Term Borrowings	117
37	Contractual Obligations	118
38	Cash and Other Investments Portfolio	119
39	Fannie Mae Credit Ratings	119

Table Description	Page
40 Mortgage Insurance Coverage	126
41 Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve	134
42 Derivative Impact on Interest Rate Risk (50 Basis Points)	135

PART I

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

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

You can find a “Glossary of Terms Used in This Report” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations (‘MD&A’).”

Item 1. Business

Introduction

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

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

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

housing finance reform by the Administration, Congress and FHFA in “Legislation and Regulation—Housing Finance Reform.”

Although Treasury owns our senior preferred stock and a warrant to purchase