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

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

OR

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

Commission File No.: 0-50231

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

Fannie Mae

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

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

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

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

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

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

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

As of March 31, 2010, there were 1,117,363,226 shares of common stock of the registrant outstanding.

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PART I FINANCIAL INFORMATION

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

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

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

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

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

INTRODUCTION

Fannie Mae is a government-sponsored enterprise that was chartered by Congress in 1938 to support liquidity, stability and affordability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold. Our most significant activities include providing market liquidity by securitizing mortgage loans originated by lenders in the primary mortgage market into Fannie Mae mortgage-backed securities, which we refer to as Fannie Mae MBS, and purchasing mortgage loans and mortgage-related securities in the secondary market for our mortgage portfolio. We acquire funds to purchase mortgage-related assets for our mortgage portfolio by issuing a variety of debt securities in the domestic and international capital markets. We also make other investments that increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market.

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

EXECUTIVE SUMMARY

Our Mission, Objectives and Strategy

Our public mission is to support liquidity and stability in the secondary mortgage market and increase the supply of affordable housing. As we discuss below, we are concentrating our efforts on two of our objectives:

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supporting liquidity, stability and affordability in the mortgage market and minimizing our credit losses from delinquent loans. Please see Business Executive Summary Our Business Objectives and Strategy in our 2009 Form 10-K for more information on our business objectives, which have been approved by FHFA.

Providing Mortgage Market Liquidity

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

During the first quarter of 2010, we purchased or guaranteed an estimated $191.4 billion in loans, measured by unpaid principal balance, which includes approximately $40 billion in delinquent loans we purchased in March 2010 from our MBS trusts, as we discuss below. Our purchases and guarantees financed approximately 516,000 conventional single-family loans, excluding delinquent loans purchased from our MBS trusts, and approximately 61,000 multifamily units.

We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2010, with an estimated market share of new single-family mortgage-related securities of 40.8%, compared with 38.9% in the fourth quarter of 2009. In the coming months, we expect our market share may be adversely impacted by a shift of the market away from refinance activity if interest rates are higher and the Federal Housing Administration (FHA) continues to be the lower-cost option, and in some cases the only option, for loans with higher loan-to-value (LTV) ratios. In the multifamily market, we remain a constant source of liquidity and have been successful with our goal of expanding our multifamily MBS business and broadening our multifamily investor base.

During 2008 and early 2009 we made changes in our pricing and eligibility standards that were intended to promote sustainable homeownership and stability in the housing market, and that have resulted in the loans we have acquired since their implementation having, on average, a strong risk profile. The single-family loans we purchased or guaranteed in the first quarter of 2010 had an average original LTV ratio of 69%, an average FICO credit score of 758, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. As with all our loans, we expect the ultimate performance of these loans will be affected by macroeconomic trends, including unemployment, the economy, and home prices. We expect that the loans we purchased or guaranteed in the first quarter of 2010 may have relatively slow prepayment speeds, and therefore remain in our book of business for an extended time, due to historically low interest rates during the first quarter of 2010, which resulted in our first quarter 2010 acquisitions having a weighted average interest rate of 4.9%. Whether our acquisitions for all of 2010 exhibit the same credit profile as our recent acquisitions will depend on many factors, including our future pricing and eligibility standards, our future objectives, mortgage insurers eligibility standards, our future volume of loans acquired under our Refi Plus™ initiative, and future activity by our competitors, including FHA and Freddie Mac. Improvements in the credit profile of our acquisitions since January 1, 2009 reflect changes we made in our pricing and eligibility standards, as well as changes mortgage insurers made to their eligibility standards. In addition, FHA s role as the lower-cost option, or in some cases the only option, for loans with higher LTV ratios further reduced our acquisition

of these types of loans.

The credit profile of our first quarter 2010 acquisitions was further enhanced by a significant percentage of our acquisitions representing refinanced loans, which generally have a stronger credit profile because refinancing demonstrates the borrower s ongoing commitment to make their mortgage payment and desire to maintain homeownership. Refinancings represented 78% of our first quarter 2010 acquisitions. While refinanced loans have historically tended to perform better than loans used for initial home purchase, Home Affordable Refinance Program (HARP) loans may not ultimately perform as strongly as traditional refinanced loans because these loans, which relate to non-delinquent Fannie Mae mortgages that were refinanced, may have original LTV ratios of up to 125% and lower FICO credit scores than traditional refinanced loans.

Reducing Credit Losses

Challenging housing market and economic conditions continue to expose Fannie Mae to significant risk of credit losses. As of March 31, 2010, the percentage of loans in our conventional single-family guaranty book of business that were seriously delinquent, which means the loans were three or more months past due or in the foreclosure process, was 5.47%, and our combined loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business as of March 31, 2010, were $60.8 billion.

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

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

Reducing Defaults. We are working to reduce defaults through improving servicing, refinancing initiatives and solutions that help borrowers retain their homes, such as modifications.

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

Refinancing Initiatives. Our refinancing initiatives help borrowers obtain a monthly payment that is more affordable now and into the future or a more stable loan product, such as a fixed-rate mortgage loan in lieu of an adjustable-rate mortgage loan, which may help prevent delinquencies and defaults. In the first quarter of 2010, as in the fourth quarter of 2009, we acquired or guaranteed approximately 417,000 loans that were refinancings, as mortgage rates remained at historically low levels. Our refinancing volume for the first quarter of 2010 includes approximately 142,000 loans refinanced through our Refi Plus initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. On average, borrowers who refinanced during the first quarter of 2010 through our Refi Plus initiative reduced their monthly mortgage payments by $145. Of the loans

refinanced through our Refi Plus initiative, approximately 54,000 loans were refinanced under HARP, which permits borrowers to benefit

from lower levels of mortgage insurance and higher LTV ratios than those that would be allowed under our traditional standards.

Home Retention Solutions. Our home retention solutions are intended to help borrowers stay in their homes. We refer to these solutions, and other actions taken by our servicers with borrowers to resolve the problem of existing or potential delinquent loan payments, as workouts. Our home retention solutions include loan modifications, repayment plans and forbearances. In the first quarter of 2010, we completed home retention workouts for over 105,000 loans with an aggregate unpaid principal balance of $20.3 billion. On a loan count basis, this represented a 111% increase over home retention workouts completed in the fourth quarter of 2009. In the first quarter of 2010, we completed approximately 94,000 loan modifications, compared to approximately 42,000 loan modifications in the fourth quarter of 2009. Our modification statistics do not include trial modifications under the Home Affordable Modification Program (HAMP) until they become permanent modifications. A notable percentage of the 94,000 modifications we completed in the first quarter of 2010 were conversions of trial modifications under HAMP to permanent modifications under the program.

It is too early to determine how successful the loan modifications we completed during the first quarter of 2010 will ultimately be. Approximately 47% of loans we modified during the first nine months of 2009 were current or had paid off as of six months following the loan modification date, compared to approximately 37% of loans we modified during the first nine months of 2008. Please see Risk Management Single-Family Mortgage Credit Risk Management Management of Problem Loans and Loan Workout Metrics for a discussion of the significant uncertainty regarding the ultimate long term success of our modification efforts.

As Table 1 demonstrates, although our single-family serious delinquency rate increased during the first quarter of 2010 and remains high, our single-family serious delinquency rate grew at a much slower rate during the first quarter of 2010 than during each quarter of 2009. This slowing in the rate of increase of our serious delinquency rate is partly the result of the home retention workouts we completed during the quarter, as well as the foreclosure alternative workouts we discuss below. We believe that growth in our serious delinquency rate during the first quarter was also slowed by improved employment trends in the economy.

Pursuing Foreclosure Alternatives. If we are unable to provide a viable home retention solution for a problem loan, we seek to offer foreclosure alternatives, primarily preforeclosure sales and deeds-in-lieu of foreclosure. These alternatives reduce the severity of our loss resulting from a borrower s default while permitting the borrower to avoid going through a foreclosure. In the first quarter of 2010, we completed approximately 17,300 preforeclosure sales and deeds-in-lieu of foreclosures, compared with approximately 13,500 in the fourth quarter of 2009. We have increasingly relied on foreclosure alternatives as a growing number of borrowers have faced longer-term economic hardships that cannot be solved through a home retention solution, and we expect the volume of our foreclosure alternatives to increase in 2010.

Managing Foreclosure Timelines Efficiently. We are working to manage our foreclosure timelines efficiently to reduce our foreclosed property expenses. As of March 31, 2010, 29% of the loans in our conventional single-family guaranty book of business that were seriously delinquent were in the process of foreclosure.

Managing our REO Inventory. Since January 2009, we have strengthened our REO sales capabilities by significantly increasing the number of resources in this area, and we are working to manage our REO inventory to reduce costs and maximize sales proceeds. During the first quarter of 2010, we acquired approximately 62,000 foreclosed single-family properties, up from approximately 47,000 during the fourth quarter of 2009, and we disposed of approximately 38,000 single-family properties. The carrying value of the single-family REO we held as of March 31, 2010 was $11.4 billion, and we expect our REO inventory to increase significantly throughout 2010.

Pursuing Contractual Remedies. We conduct reviews of delinquent loans and, when we discover loans that do not meet our underwriting and eligibility requirements, we make demands for lenders to repurchase these loans or compensate us for losses sustained on the loans, as well as requests for repurchase or compensation for loans for which the mortgage insurer rescinds coverage. During the first quarter of 2010, lenders repurchased approximately $1.8 billion in loans from us, measured by unpaid principal balance, pursuant to their contractual obligations. We are also pursuing contractual remedies from providers of credit enhancement on our loans, including mortgage insurers. We received proceeds under our mortgage insurance policies for single-family loans of $1.5 billion for the three months ended March 31, 2010. Please see Risk Management Institutional Counterparty Credit Risk Management for a discussion of our high balance of outstanding repurchase and reimbursement requests and outstanding receivables from mortgage insurers, as well as the risk that one or more of these counterparties fails to fulfill its obligations to us.

A key theme underlying our strategies for reducing our credit losses is reducing delays. We believe that repayment plans, short-term forbearances and loan modifications can be most effective in preventing defaults when completed at an early stage of delinquency. Similarly, we believe that our foreclosure alternatives are more likely to be successful in reducing our loss severity if they are executed expeditiously. Accordingly, it is important to work with delinquent borrowers early in the delinquency to determine whether a home retention or foreclosure alternative will be viable and, where none is, to reduce delays in proceeding to foreclosure and obtaining recoveries. Minimizing delays prior to foreclosure and focusing on maximizing sales proceeds and recoveries from lenders and credit enhancers also accelerate our receipt of recoveries.

The actions we have taken to stabilize the housing market and minimize our credit losses have had and may continue to have, at least in the short term, a material adverse effect on our results of operations and financial condition, including our net worth. See Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae for information on HAMP s financial impact on us during the first quarter of 2010 and the $7.6 billion we incurred in impairments in connection with HAMP during the quarter. These actions have been undertaken with the goal of reducing our future credit losses below what they otherwise would have been. It is difficult to predict how effective these actions ultimately will be in reducing our credit losses and, in the future, it may be difficult to measure the impact our actions ultimately have on our credit losses.

Credit Performance

Table 1 presents information for the first quarter of 2010 and for each quarter of 2009 about the credit performance of mortgage loans in our single-family guaranty book of business and our loan workouts. The workout information in Table 1 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications under HAMP that have not become permanent.

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

	2010	2009					2008
	Q1	Full Year	Q4	Q3	Q2	Q1	Full Year
	(Dollars in millions)						
As of the end of each period:							
Serious delinquency rate[2]	5.47%	5.38%	5.38%	4.72%	3.94%	3.15%	2.42%
Nonperforming loans[3]	$ 222,892	$ 215,505	$ 215,505	$ 197,415	$ 170,483	$ 144,523	$ 118,912
Foreclosed property inventory:							
Number of properties	109,989	86,155	86,155	72,275	62,615	62,371	63,538
Carrying value	$ 11,423	$ 8,466	$ 8,466	$ 7,005	$ 6,002	$ 6,215	$ 6,531
Combined loss reserves[4]	$ 58,900	$ 62,312	$ 62,312	$ 64,200	$ 53,844	$ 40,882	$ 24,498
During the period:							
Foreclosed property (number of properties):							
Acquisitions[5]	61,929	145,617	47,189	40,959	32,095	25,374	94,652
Dispositions	(38,095)	(123,000)	(33,309)	(31,299)	(31,851)	(26,541)	(64,843)
Single-family credit-related expenses[6]	$ 11,926	$ 71,320	$ 10,943	$ 21,656	$ 18,391	$ 20,330	$ 29,725
Single-family credit losses[7]	$ 5,062	$ 13,362	$ 3,976	$ 3,620	$ 3,301	$ 2,465	$ 6,467
Loan workout activity (number of loans):							
Total home retention loan workouts[8]	105,026	160,722	49,871	37,431	33,098	40,322	112,247
Preforeclosure sales and deeds-in-lieu of foreclosure	17,326	39,617	13,459	11,827	8,360	5,971	11,696
Total loan workouts	122,352	200,339	63,330	49,258	41,458	46,293	123,943
Total loan workouts as a percentage of delinquent loans in our single-family guaranty book of business[9]	31.59%	12.24%	15.48%	12.98%	12.42%	16.12%	11.32%

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

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

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

(4) Consists of the allowance for loan losses for loans recognized in our condensed consolidated balance sheets and the reserve for guaranty losses related to both single-family loans backing Fannie Mae MBS that we do not consolidate in our condensed consolidated balance sheets and single-family loans that we have guaranteed under long-term standby commitments. Prior period amounts have been restated to conform to the current period presentation. The amount shown as of March 31, 2010 reflects a decrease from the amount shown as of December 31, 2009 as a result of the adoption of the new accounting standards.

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

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

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

(8) Consists of (a) modifications, which do not include trial modifications under HAMP or repayment plans or forbearances that have been initiated but not completed; (b) repayment plans and forbearances completed and (c) HomeSaver Advance first-lien loans. See Table 38: Statistics on Single-Family Loan Workouts in Risk Management Credit Risk Management for additional information on our various types of loan workouts.

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

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

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

Impact on our Condensed Consolidated Financial Statements

Our adoption of the new accounting standards had a major impact on the presentation of our condensed consolidated financial statements. The new standards require that we consolidate the substantial majority of Fannie Mae MBS trusts we guarantee and recognize the underlying assets (typically mortgage loans) and debt (typically bonds issued by the trusts in the form of Fannie Mae MBS certificates) of these trusts as assets and liabilities in our condensed consolidated balance sheets.

Although the new accounting standards did not change the economic risk to our business, we recorded a decrease of $3.3 billion in our total deficit as of January 1, 2010 to reflect the cumulative effect of adopting these new standards. We provide a detailed discussion of the impact of the new accounting standards on our accounting and financial statements in Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities. The table below sets forth the most significant changes to our condensed consolidated financial statements resulting from consolidation of these MBS trusts.

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Financial Statement	Accounting and Presentation Changes
Balance Sheet	Significant increase in loans and debt and decrease in trading and available-for-sale securities Separate presentation of the elements of the consolidated MBS trusts (such as mortgage loans, debt, accrued interest receivable and payable) on the face of our condensed consolidated balance sheets Significant increase in allowance for loan losses and significant decrease in reserve for guaranty losses Elimination of substantially all previously recorded guaranty assets and guaranty obligations
Statement of Operations	Significant increase in interest income and interest expense attributable to the assets and liabilities of the consolidated MBS trusts, and separate presentation of the elements of the consolidated MBS trusts (interest income and interest expense) on the face of our condensed consolidated statements of operations Reclassification of the substantial majority of guaranty fee income and trust management income to interest income Decrease to the provision for credit losses (which consists of the provision for loan losses and provision for guaranty losses) and corresponding decrease in net interest income due to recognizing interest expense on the debt of consolidated MBS trusts and not accruing interest income on underlying nonperforming consolidated loans Elimination of fair value losses on credit-impaired loans acquired from MBS trusts we have consolidated, as the underlying loans in our MBS trusts are already recognized in our condensed consolidated balance sheets Portfolio securitization transactions that reflect transfers of assets to consolidated MBS trusts do not qualify as sales, thereby reducing the amount we recognize as portfolio securitization gains and losses. We also no longer record gains or losses on the sale from our portfolio of available-for-sale MBS securities that were issued by consolidated MBS trusts, because these securities are eliminated in consolidation Elimination of fair value gains or losses on trading MBS issued by consolidated MBS trusts, which

	reduces the amount of securities subject to recognition of changes in fair value in our condensed consolidated statements of operations
Statement of Cash Flows	Significant change in the amounts of cash flows from investing and financing activities

Upon adopting the new accounting standards, we changed the presentation of segment financial information that is currently evaluated by management, as we discuss in Business Segment Results Changes to Segment Reporting.

Purchases from our Single-Family MBS Trusts

With our adoption of the new accounting standards, we no longer recognize the acquisition of a credit-impaired loan from the majority of our MBS trusts as a purchase with an associated fair value loss for the difference between the fair value of the acquired loan and its acquisition cost, as they are now consolidated

and the loan is already reflected in our condensed consolidated balance sheets at the time of acquisition. Without these fair value losses, the cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our portfolio is less than the cost of advancing delinquent payments to holders of the Fannie Mae MBS. As a result, we have begun to significantly increase our purchases of delinquent loans from single-family MBS trusts to reduce our costs associated with these loans. Under our single-family MBS trust documents, we have the option to purchase from our MBS trusts loans that are delinquent as to four or more consecutive monthly payments. In March 2010, we purchased approximately 216,000 delinquent loans with an unpaid principal balance of approximately $40 billion from MBS trusts, which increased our Capital Markets mortgage portfolio balance. As of March 31, 2010, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent four or more months was approximately $94 billion. In April 2010, we purchased approximately 229,000 delinquent loans with an unpaid principal balance of approximately $46 billion from our MBS trusts. We expect to continue to purchase a significant portion of the remaining delinquent population within a few months subject to market conditions, servicer capacity, and other constraints including the limit on the mortgage assets that we may own pursuant to our senior preferred stock purchase agreement with Treasury.

Summary of our Financial Performance for the First Quarter of 2010

Our financial results for the first quarter of 2010 reflect the continued weakness in the housing and mortgage markets, which showed some signs of stabilization in the first quarter of 2010 but which remain under pressure due to high levels of unemployment and underemployment.

Net loss. We recorded a net loss of $11.5 billion for the first quarter of 2010, primarily driven by credit-related expenses of $11.9 billion and fair value losses of $1.7 billion, which were partially offset by net interest income of $2.8 billion. Including dividends on senior preferred stock, the net loss attributable to common stockholders we recorded for the first quarter of 2010 was $13.1 billion and our diluted loss per share was $2.29. In comparison, we recorded a net loss of $15.2 billion, a net loss attributable to common stockholders of $16.3 billion and a diluted loss per share of $2.87 for the fourth quarter of 2009. We recorded a net loss and a net loss attributable to common stockholders of $23.2 billion and a diluted loss per share of $4.09 for the first quarter of 2009.

The $3.6 billion decrease in our net loss in the first quarter of 2010 compared with the fourth quarter of 2009 was primarily due to:

- a $5.2 billion decrease in losses from partnership investments due to our recognition of $5.0 billion in the fourth quarter of 2009 in other-than-temporary impairment losses on our low-income housing tax credit (LIHTC) investments; and

- a $2.3 billion decrease in net other-than-temporary impairments on our available-for-sale securities.

The decrease in losses was partially offset by an increase in fair value losses, net of $1.1 billion and a $2.7 billion decrease in revenue primarily due to our adoption of the new accounting standards, which resulted in the following impacts:

- Upon adoption we consolidated the substantial majority of Fannie Mae MBS trusts in our condensed consolidated balance sheet, which significantly increased the amount of nonperforming loans recognized in our condensed consolidated balance sheets and therefore our forgone interest. Prior to our adoption of the new accounting standards, these loans backed unconsolidated MBS trusts, and we reflected expectations about the collectibility of interest payments through our provision for guaranty losses.

We eliminated substantially all of our guaranty-related assets and liabilities in our condensed consolidated balance sheet upon adoption of the new accounting standards, and therefore for consolidated trusts we no

longer recognize income or loss from amortizing these assets and liabilities or from changes in their fair value.

The $11.7 billion decrease in our net loss in the first quarter of 2010 compared with the first quarter of 2009 was primarily due to:

- a $9.0 billion decrease in credit-related expenses primarily because the credit quality of our guaranty book of business deteriorated at a much faster pace in the first quarter of 2009 than during the first quarter of 2010; and
- a $5.4 billion decrease in net other-than-temporary impairments on our available-for-sale securities driven by a change in the impairment accounting standard on April 1, 2009 that resulted in our recognizing only the credit portion of other-than-temporary impairment in our condensed consolidated statements of operations.

The decrease in losses compared with the first quarter of 2009 was partially offset by a $2.2 billion decrease in net revenue that was primarily due to the adoption of the new accounting standards.

Net Worth. We had a net worth deficit of $8.4 billion as of March 31, 2010, compared with a net worth deficit of $15.3 billion as of December 31, 2009. Our net worth as of March 31, 2010 was negatively impacted by the recognition of our net loss of $11.5 billion and senior preferred stock dividends of $1.5 billion. These reductions in our net worth were offset by our receipt of $15.3 billion in funds from Treasury on March 31, 2010 under our senior preferred stock purchase agreement with Treasury, as well as from a $3.3 billion benefit due to the cumulative effect of our adoption of the new accounting standards. Our net worth, which is the basis for determining the amount that Treasury has committed to provide us under the senior preferred stock purchase agreement, equals the Total deficit reported in our condensed consolidated balance sheet. In May 2010, the Acting Director of FHFA submitted a request to Treasury on our behalf for $8.4 billion to eliminate our net worth deficit as of March 31, 2010. When Treasury provides the requested funds, the aggregate liquidation preference on the senior preferred stock will be $84.6 billion, which will require an annualized dividend of approximately $8.5 billion. This amount exceeds our reported annual net income for each of the last eight fiscal years, in most cases by a significant margin.

Credit-Related Expenses and Credit Losses. Our credit-related expenses, which consist of the provision for loan losses and the provision for guaranty losses (collectively referred to as the provision for credit losses) plus foreclosed property expense, were $11.9 billion for the first quarter of 2010. Due to our adoption of the new accounting standards, effective January 1, 2010, we no longer recognize fair value losses on credit-impaired loans newly acquired from MBS trusts that we consolidated, which affects our provision for credit losses. During the first quarter of 2010 we recognized a higher level of impairments as compared with the fourth quarter of 2009 because loan modifications, which result in the loans being treated as individually impaired, increased substantially. In aggregate, the increase in individual impairment, as well as the high level of nonperforming loans, delinquencies, and defaults due to the general deterioration in our guaranty book of business, resulted in our provision for credit losses for the first quarter of 2010 of $11.9 billion decreasing only slightly from our $12.2 billion provision for credit losses in the fourth quarter of 2009, despite the reduction in fair-value losses on credit-impaired loans acquired from MBS trusts.

Credit-related expenses are included in our condensed consolidated statements of operations. Our credit losses, by contrast, are not defined within generally accepted accounting principles, or GAAP, and may not be calculated in the same manner as similarly titled measures reported by other companies. We measure our credit losses as our charge-offs, net of recoveries, plus our foreclosed property expense, adjusted to eliminate the impact associated with our HomeSaver Advance loans (unsecured personal loans used to bring mortgage loans current) and our acquisition of credit-impaired loans from MBS trusts. Our credit losses increased to $5.1 billion in the first quarter of 2010 from $4.1 billion in the fourth quarter of 2009 and $2.5 billion in the first quarter of 2009. The increase in our credit losses from the fourth quarter of 2009 primarily reflects the

increase in the number of defaults, which was partially offset by a slight reduction in loss severity. While the level of our credit losses increased, it remained substantially lower than our credit-related expenses during the first quarter of 2010, due partly to our home retention and foreclosure alternative efforts, and partly to changes in the foreclosure process in a number of states and foreclosure processing backlogs in some jurisdictions. During the first quarter of 2010, our loss severity and average initial charge-off per default declined slightly but remained high. Please see Consolidated Results of Operations Credit-Related Expenses Credit Loss Performance Metrics in our 2009 Form 10-K for more detail on how we measure our credit losses.

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

Housing and Mortgage Market and Economic Conditions

The housing sector, while still fragile, continued to show some signs of stabilization and improvement in the first quarter of 2010. During the first quarter of 2010, the U.S. economy continued to emerge from the severe economic recession that started in December 2007, with the U.S. gross domestic product, or GDP, rising by 3.2% on an annualized basis during the quarter, according to the Bureau of Economic Analysis advance estimate.

However, the housing market remains under pressure due to high levels of unemployment and underemployment. Unemployment was 9.7% in March 2010, a decrease from 10.0% in December 2009, based on data from the U.S. Bureau of Labor Statistics. The Mortgage Bankers Association National Delinquency Survey reported that, as of December 31, 2009, the most recent date for which information is available, 9.67% of borrowers were seriously delinquent (90 days or more past due or in the foreclosure process), which we estimate represents approximately five million mortgages.

The supply of single-family homes as measured by the inventory/sales ratio remains above long-term average levels, with significant regional variation. Some regions, such as Florida, are struggling with large inventory overhang while others, such as California, are experiencing nearly depleted inventories in lower priced homes. Properties that are vacant and held off the market, combined with the portion of the estimated five million seriously delinquent mortgages not currently listed for sale, represent a shadow inventory putting downward pressure on both home prices and rents.

We estimate that, although home prices have improved in some geographic regions, home prices on a national basis declined by 1.5% in the first quarter of 2010 and have declined by 18.4% from their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available. As we have previously disclosed, the decline in home prices has left many homeowners with negative equity in their mortgages, which means their principal balance exceeds the current market value of their home. This provides an incentive for borrowers to walk away from their mortgage obligations and for the loans to become delinquent and proceed to foreclosure.

Preliminary data for the first quarter of 2010 indicate that multifamily housing fundamentals are showing the first signs of improvement. Unemployment, the slow economic recovery, and below-average household formations continue to depress the multifamily sector, with apartment property sales, occupancy levels, and asking rents remaining at depressed levels. However, the estimated national vacancy rate appears to have decreased in the first quarter of 2010. In addition, asking rents appear to have held steady and perhaps increased slightly, according to preliminary third-party data, and apartment property sales increased slightly during the quarter. The anticipated

volume of new multifamily loans remains uncertain. Although the number of distressed multifamily properties remains elevated, properties are not showing up on the sales market as

lenders and servicers appear to be entering into workouts and extensions, instead of pursuing foreclosures. This could result in fewer multifamily properties being offered for sale or refinanced and may constrain the amount of new multifamily loan origination volume in 2010.

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

Outlook

Overall Market Conditions. We expect weakness in the housing and mortgage markets to continue throughout 2010. Home sales fell during the first quarter of 2010. However, we expect the temporary tax credit combined with a seasonal increase in home sales in the second quarter and historically low mortgage rates to support increased sales in the second quarter of 2010 before the pace slows again in the third quarter. We also expect home sales to start a longer term growth path by the end of 2010, if the labor market shows improvement. The continued deterioration in the performance of outstanding mortgages, however, will result in the foreclosure of troubled loans, which is likely to add to the excess housing inventory. If, as we expect, interest rates rise modestly, the pace at which the excess inventory is absorbed will decline.

We expect that during 2010: (1) default and severity rates will remain heightened, (2) home prices will decline slightly further on a national basis, more in some geographic areas than in others, and (3) the level of foreclosures will increase. We also expect the level of multifamily defaults and serious delinquencies to increase further during 2010. All of these conditions, including the level of single-family delinquencies, may worsen if the unemployment rate increases on either a national or regional basis. We expect the decline in residential mortgage debt outstanding to continue through 2010, which would mark three consecutive annual declines. Approximately 78% of our single-family business in the first quarter of 2010 consisted of refinancings. In the coming months, we expect a shift of the market away from refinance activity if interest rates increase, which will be somewhat offset by a seasonal increase in home sales. We expect these trends, combined with an expected decline in total originations in 2010, will have an adverse impact on our business volumes during the remainder of 2010.

Home Price Declines: Following a decline of approximately 2.9% in 2009, we expect that home prices on a national basis will decline slightly in 2010 before stabilizing, and that the peak-to-trough home price decline on a national basis will range between 18% and 23%. These estimates are based on our home price index, which is calculated differently from the S&P/Case-Shiller U.S. National Home Price Index and therefore results in different percentages for comparable declines. These estimates also contain significant inherent uncertainty in the current market environment regarding a variety of critical assumptions we make when formulating these estimates, including: the effect of actions the federal government has taken and may take with respect to the national economic recovery; the impact of the end of the Federal Reserve s MBS purchase program; and the impact of those actions on home prices, unemployment and the general economic and interest rate environment. Because of these uncertainties, the actual home price decline we experience may differ significantly from these estimates. We also expect significant regional variation in home price declines and stabilization.

Our 18% to 23% peak-to-trough home price decline estimate compares with an approximately 32% to 40% peak-to-trough decline using the S&P/Case-Shiller index method. Our estimates differ from the S&P/Case-Shiller index in two principal ways: (1) our estimates weight expectations by number of properties, whereas the S&P/Case-Shiller index weights expectations based on property value, causing home price declines on higher priced homes to have a greater effect on the overall result; and (2) contrary to the S&P/Case-Shiller index, our estimates do not include known sales of foreclosed homes because we believe that differing maintenance practices and the forced nature of the sales make foreclosed home prices less representative of market values. The S&P/Case-Shiller comparison numbers are calculated using our models and assumptions, but modified to use these two factors

(weighting of expectations based on property value and the inclusion of foreclosed property sales). In addition to these differences, our estimates are based on our own internally

available data combined with publicly available data, and are therefore based on data collected nationwide, whereas the S&P/Case-Shiller index is based only on publicly available data, which may be limited in certain geographic areas of the country. Our comparative calculations to the S&P/Case-Shiller index provided above are not modified to account for this data pool difference.

Credit-Related Expenses. We expect that our credit-related expenses will remain high in 2010, as we believe that the level of our nonperforming loans will remain elevated for a period of time. We expect that, if current trends continue, our credit-related expenses could be lower in 2010 than in 2009. Our expectations for single-family credit-related expenses are based on several factors, including: (1) the decrease in average loss severities compared to 2009 as home price declines have begun to moderate and prices have stabilized in some regions; (2) our current expectation that, as 2010 progresses, the pace at which loans become delinquent will moderate which, coupled with an increase in the pace of foreclosures and problem loan workouts, will result in a slower rate of increase in, and possibly a leveling of, delinquencies; and (3) that, as a result of our adoption of the new accounting standards, we no longer recognize the acquisition of a credit-impaired loan from the majority of our MBS trusts as a purchase with an associated fair value loss for the difference between the fair value of the acquired loan and its acquisition cost, as they are now consolidated and the loan is already reflected in our condensed consolidated balance sheets at the time of acquisition.

Credit Losses. We expect that our single-family and multifamily credit losses will continue to increase during 2010 as a result of anticipated continued high unemployment and overall economic weakness, which will contribute to an expected increase in our charge-offs as we pursue foreclosure alternatives and foreclosures on seriously delinquent loans for which we are not able to provide a sustainable home retention workout solution.

Uncertainty Regarding our Long-Term Financial Sustainability and Future Status. We expect that the actions we take to stabilize the housing market and minimize our credit losses will continue to have, in the short term at least, a material adverse effect on our results of operations and financial condition, including our net worth. There is significant uncertainty in the current market environment, and any changes in the trends in macroeconomic factors that we currently anticipate, such as home prices and unemployment, may cause our future credit-related expenses and credit losses to vary significantly from our current expectations. Although Treasury s funds under the senior preferred stock purchase agreement permit us to remain solvent and avoid receivership, the resulting dividend payments are substantial. Given our expectations regarding future losses and draws from Treasury, we do not expect to earn profits in excess of our annual dividend obligation to Treasury for the indefinite future. As a result of these factors, there is significant uncertainty as to our long-term financial sustainability.

In addition, there is uncertainty regarding the future of our business after the conservatorship is terminated, including whether we will continue in our current form, and we expect this uncertainty to continue. On April 14, 2010, the Obama Administration released seven broad questions for public comment on the future of the housing finance system, including Fannie Mae and Freddie Mac, and announced that it would hold a series of public forums across the country on housing finance reform. Treasury Secretary Geithner testified in March 2010 that the administration expects to present its proposals for reform to Congress next year. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding longer-term reform of Fannie Mae, Freddie Mac and the Federal Home Loan Banks (the GSEs). Please see GSE Reform and Pending Legislation in our 2009 Form 10-K for a discussion of legislation being considered that could affect our business, including a list of possible reform options for the GSEs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the

extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in Note 1, Summary of Significant Accounting Policies of this report and in our 2009 Form 10-K.

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

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

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

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

Fair Value Measurement

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

Fair Value Hierarchy Level 3 Assets and Liabilities

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

Table 2 presents a comparison, by balance sheet category, of the amount of financial assets carried in our condensed consolidated balance sheets at fair value on a recurring basis and classified as Level 3 as of

March 31, 2010 and December 31, 2009. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the amount of financial instruments carried at fair value on a recurring basis and classified as Level 3 to vary each period.

Table 2: Level 3 Recurring Financial Assets at Fair Value

Balance Sheet Category	As of March 31, 2010	As of December 31, 2009
	(Dollars in millions)	
Trading securities	$ 6,724	$ 8,861
Available-for-sale securities	35,830	36,154
Derivatives assets	146	150
Guaranty assets and buy-ups	11	2,577
Level 3 recurring assets	$ 42,711	$ 47,742
Total assets	$ 3,293,755	$ 869,141
Total recurring assets measured at fair value	$ 193,140	$ 353,718
Level 3 recurring assets as a percentage of total assets	1%	5%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	22%	13%
Total recurring assets measured at fair value as a percentage of total assets	6%	41%

The decrease in assets classified as Level 3 during the first quarter of 2010 includes a $2.6 billion decrease due to derecognition of guaranty assets and buy-ups at the transition date as well as net transfers of approximately $2.5 billion in assets to Level 2 from Level 3. The assets transferred from Level 3 consist primarily of Fannie Mae guaranteed mortgage-related securities and private-label mortgage-related securities.

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include held-for-sale loans, held-for-investment loans, acquired property and partnership investments. The fair value of these Level 3 nonrecurring financial assets totaled $11.2 billion during the first quarter of 2010, and $21.2 billion during the year ended December 31, 2009.

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $653 million as of March 31, 2010 and $601 million as of December 31, 2009, and derivatives liabilities with a fair value of $6 million as of March 31, 2010 and $27 million as of December 31, 2009.

Allowance for Loan Losses and Reserve for Guaranty Losses

We maintain an allowance for loan losses for loans classified as held for investment, including both loans held by us and by consolidated Fannie Mae MBS trusts. We maintain a reserve for guaranty losses for loans held in unconsolidated Fannie Mae MBS trusts we guarantee and loans that we have guaranteed under long-term standby commitments. We report the allowance for loan losses and reserve for guaranty losses as separate line items in our condensed consolidated balance sheets. These amounts, which we collectively refer to as our combined loss reserves, represent probable losses incurred in our guaranty book of business as of the balance sheet date. The allowance for loan losses is a valuation allowance that reflects an estimate of incurred credit losses related to our recorded

investment in loans held for investment. The reserve for guaranty losses is a liability account in our condensed consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. As a result, the guaranty reserve considers not only the principal and interest due on the loan at the current balance sheet date, but also an estimate of any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. We maintain separate loss reserves for single-family and multifamily loans. Our single-family and multifamily loss reserves consist of a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans.

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

Single-Family Loss Reserves

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

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

Combined Loss Reserves

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

Upon adoption of the new accounting standards, we derecognized the substantial majority of the Reserve for guaranty losses relating to loans in previously unconsolidated trusts that were consolidated in our condensed consolidated

balance sheet. We continue to record a reserve for guaranty losses related to loans in unconsolidated trusts and to loans that we have guaranteed under long-term standby commitments.

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

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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following table describes the impact to our first quarter 2010 results for those line items that were impacted significantly as a result of our adoption of the new accounting standards.

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

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

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

Table 3 summarizes our condensed consolidated results of operations for the periods indicated.

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Table 3: Summary of Condensed Consolidated Results of Operations[1]

	For the Three Months Ended March 31,		
	2010	2009	Variance
	(Dollars in millions, except per share amounts)[1]		
Net interest income	$ 2,789	$ 3,248	$ (459)
Guaranty fee income	54	1,752	(1,698)
Fee and other income	179	192	(13)
Net revenues	**$ 3,022**	**$ 5,192**	**$ (2,170)**
Investment gains, net	166	223	(57)
Net other-than-temporary impairments	(236)	(5,653)	5,417
Fair value losses, net	(1,705)	(1,460)	(245)
Losses from partnership investments	(58)	(357)	299
Administrative expenses	(605)	(523)	(82)
Credit-related expenses[2]	(11,884)	(20,872)	8,988
Other non-interest expenses	(296)	(358)	62
Loss before federal income taxes	(11,596)	(23,808)	12,212
Benefit for federal income taxes	67	623	(556)
Net loss	(11,529)	(23,185)	11,656
Less: Net loss (income) attributable to the noncontrolling interest	(1)	17	(18)
Net loss attributable to Fannie Mae	**$ (11,530)**	**$ (23,168)**	**$ 11,638**
Diluted loss per common share	**$ (2.29)**	**$ (4.09)**	**$ 1.80**

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

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

Net Interest Income

Table 4 presents an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we used a daily weighted average of amortized cost. When daily average balance information was not available, such as for mortgage loans, we used monthly averages. Table 5 presents the change in our net interest income between periods and the

extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities; or (2) changes in the interest rates of these assets and liabilities.

Table 4: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans[1]	$ 2,989,957	$ 37,619	5.03%	$ 431,918	$ 5,598	5.18%
Mortgage securities	149,053	1,751	4.70	346,923	4,620	5.33
Non-mortgage securities[2]	66,860	37	0.22	48,349	91	0.75
Federal funds sold and securities purchased under agreements to resell or similar arrangements	40,061	21	0.21	64,203	104	0.65
Advances to lenders	2,512	18	2.87	4,256	23	2.16
Total interest-earning assets	$ 3,248,443	$ 39,446	4.86%	$ 895,649	$ 10,436	4.66%
Interest-bearing liabilities:						
Short-term debt	$ 191,419	$ 118	0.25%	$ 330,434	$ 1,107	1.34%
Long-term debt	3,030,160	36,539	4.82	554,806	6,081	4.38
Federal funds purchased and securities sold under agreements to repurchase	24		0.07	79		
Total interest-bearing liabilities	$ 3,221,603	$ 36,657	4.55%	$ 885,319	$ 7,188	3.25%
Impact of net non-interest bearing funding	$ 26,840		0.03%	$ 10,330		0.04%
Net interest income/net interest yield		$ 2,789	0.34%		$ 3,248	1.45%
Selected benchmark interest rates at end of period:[3]						
3-month LIBOR			0.29%			1.19%
2-year swap interest rate			1.19			1.38
5-year swap interest rate			2.73			2.22
30-year Fannie Mae MBS par coupon rate			4.51			3.88

(1) Interest income includes interest income on acquired credit-impaired loans, which totaled $587 million and $153 million for the three months ended March 31, 2010 and 2009, respectively. These interest income amounts

also include accretion of $266 million and $65 million for the three months ended March 31, 2010 and 2009, respectively, relating to a portion of the fair value losses recorded upon the acquisition of the loans.

(2) Includes cash equivalents.

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

Table 5: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended March 31, 2010 vs. 2009		
	Total Variance	Variance Due to:[1]	
		Volume	Rate
	(Dollars in millions)		
Interest income:			
Mortgage loans	$ 32,021	$ 32,189	$ (168)
Mortgage securities	(2,869)	(2,378)	(491)
Non-mortgage securities[2]	(54)	26	(80)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(83)	(30)	(53)
Advances to lenders	(5)	(11)	6
Total interest income	29,010	29,796	(786)
Interest expense:			
Short-term debt	(989)	(336)	(653)
Long-term debt	30,458	29,789	669
Total interest expense	29,469	29,453	16
Net interest income	$ (459)	$ 343	$ (802)

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

(2) Includes cash equivalents.

Net interest income decreased in the first quarter of 2010 as compared with the first quarter of 2009 primarily as a result of the interest expense recognized on long-term debt of the consolidated MBS trusts being greater than the interest income recognized on the underlying mortgage loans of the consolidated trusts. While we do not recognize interest income on the mortgage loans of the consolidated trusts that have been placed on nonaccrual status, we continue to recognize interest expense for the amounts owed to MBS certificateholders, which has decreased our net interest income. Prior to the adoption of the new accounting standards, interest income and expense on MBS trusts not owned by Fannie Mae were not recorded as components of net interest income but were considered in determining our provision for credit losses. For the first quarter of 2010, interest income that we did not recognize for nonaccrual mortgage loans was $2.7 billion, which reduced our net interest yield by 33 basis points, compared with $223 million for the first quarter of 2009, which reduced our net interest yield by 10 basis points.

We recognize the contractual guaranty fee and the amortization of deferred cash fees received after December 31, 2009 on the underlying mortgage loans of consolidated trusts as interest income, which represents the spread between

the yield on the underlying mortgage assets and the rate on the debt of the consolidated trusts. Upon adoption of the new accounting standards, our interest-earning assets and interest-bearing liabilities both increased by approximately $2.4 trillion. The lower spread on these interest-earning assets and liabilities had the impact of reducing our net interest yield for the first quarter of 2010 as compared to the first quarter of 2009.

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

Guaranty Fee Income

Guaranty fee income decreased in the first quarter of 2010 compared with the first quarter of 2009 because we consolidated the substantial majority of our MBS trusts and we recognize interest income and expense, instead

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

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

Investment Gains, Net

Investment gains recognized in the first quarter of 2010 were primarily the result of realized gains on sales of available-for-sale securities as spread tightening on agency MBS and a decline in mortgage rates led to higher sales prices. The decrease in investment gains in the first quarter of 2010 compared with the first quarter of 2009 was due to a decrease in securitization gains as a large majority of our portfolio securitization transactions no longer qualify for sale treatment under the new accounting standards. The decrease in investment gains was partially offset by a decrease in lower of cost or fair value adjustments on held-for-sale loans due to the reclassification of most of our held-for-sale loans to held for investment upon adoption of the new accounting standards.

Net Other-Than-Temporary Impairment

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

Fair Value Losses, Net

Table 6 presents the components of fair value gains and losses.

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Table 6: Fair Value Gains (Losses), Net

	For the Three Months Ended March 31,	
	2010	2009
	(Dollars in millions)	
Risk management derivatives fair value losses attributable to:		
Net contractual interest expense accruals on interest rate swaps	$ (835)	$ (940)
Net change in fair value during the period	(1,326)	(428)
Total risk management derivatives fair value losses, net	(2,161)	(1,368)
Mortgage commitment derivatives fair value losses, net	(601)	(338)
Total derivatives fair value losses, net	(2,762)	(1,706)
Trading securities gains, net	1,058	167
Debt foreign exchange gains, net	23	55
Debt fair value gains (losses), net	(24)	24
Fair value losses, net	$ (1,705)	$ (1,460)

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

Risk Management Derivatives Fair Value Losses, Net

We supplement our issuance of debt securities with derivative instruments to further reduce duration and prepayment risks. We generally are the purchaser of risk management derivatives. In cases where options obtained through callable debt issuance are not needed for risk management purposes, we may engage in sales of options in the over-the-counter derivatives market in order to offset the options obtained in the callable debt. During the first quarter of 2010, there were a small number of transactions of this type.

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

Our derivative losses in the first quarter of 2009 were primarily driven by fair value losses on our option-based derivatives due to the combined effect of a decrease in implied volatility and the time decay of these options.

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

Mortgage Commitment Derivatives Fair Value Losses, Net

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

Trading Securities Gains, Net

Gains on trading securities in the first quarter of 2010 were primarily driven by the narrowing of spreads on commercial mortgage-backed securities (CMBS) as well as by a decrease in interest rates.

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The gains on our trading securities during the first quarter of 2009 were attributable to the significant decline in mortgage interest rates and the narrowing of spreads on agency MBS during the quarter. These gains were partially offset by a decrease in the fair value of our private-label mortgage-related securities backed by Alt-A and subprime loans that we hold.

Losses from Partnership Investments

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

Administrative Expenses

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

Credit-Related Expenses

Credit-related expenses consist of the provision for loan losses, provision for guaranty losses (collectively referred to as provision for credit losses) and foreclosed property expense. We detail the components of our credit-related expenses in Table 7.

Table 7: Credit-Related Expenses

	For the Three Months Ended March 31,	
	2010	2009
	(Dollars in millions)	
Provision for loan losses	$ 11,939	$ 2,509
Provision (benefit) for guaranty losses	(36)	17,825
Total provision for credit losses[1]	11,903	20,334
Foreclosed property expense (income)	(19)	538
Credit-related expenses	$ 11,884	$ 20,872

(1) Includes credit losses attributable to acquired credit-impaired loans and HomeSaver Advance fair value losses of $58 million for the three months ended March 31, 2010 and $1.5 billion for the three months ended March 31, 2009.

Provision for Credit Losses

We summarize the changes in our combined loss reserves in Table 8. Upon recognition of the mortgage loans held by newly consolidated trusts on January 1, 2010, we increased our Allowance for loan losses and decreased our Reserve for guaranty losses. The impact at transition is reported as Adoption of new accounting standards in the table. The decrease in the combined loss reserves from transition represents a difference in the methodology used to estimate incurred losses for our allowance for loan losses as compared with our reserve for guaranty losses and our separate presentation of the portion of the allowance related to accrued interest as our Allowance for accrued interest receivable. These changes are discussed in Note 2, Adoption of the New Accounting Standards on the Transfers of Financial Assets and Consolidation of Variable Interest Entities.

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Table 8: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended March 31,	
	2010	**2009**
Changes in combined loss reserves:		
Allowance for loan losses:		
Beginning balance[1][2]	$ 9,925	$ 2,772
Adoption of new accounting standards	43,576	
Provision for loan losses	11,939	2,509
Charge-offs[3]	(5,160)	(637)
Recoveries	374	35
Net reclassification of portion of allowance related to interest[1][4]	(85)	(49)
Ending balance[1][5][6]	$ 60,569	$ 4,630
Reserve for guaranty losses:		
Beginning balance	$ 54,430	$ 21,830
Adoption of new accounting standards	(54,103)	
Provision (benefit) for guaranty losses	(36)	17,825
Charge-offs	(61)	(2,944)
Recoveries	3	165
Ending balance	$ 233	$ 36,876
Combined loss reserves:		
Beginning balance[1][2]	$ 64,355	$ 24,602
Adoption of new accounting standards	(10,527)	
Total provision for credit losses	11,903	20,334
Charge-offs[3]	(5,221)	(3,581)
Recoveries	377	200
Net reclassification of portion of allowance related to interest[1][4]	(85)	(49)
Ending balance[1][5][6]	$ 60,802	$ 41,506
Attribution of charge-offs:		
Charge-offs attributable to guaranty book of business	$ (5,163)	$ (2,056)
Charge-offs attributable to fair value losses on:		
Acquired credit-impaired loans	(58)	(1,410)
HomeSaver Advance loans		(115)
Total charge-offs	$ (5,221)	$ (3,581)

	As of	
	March 31, 2010	**December 31, 2009**
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family[1]	$ 58,900	$ 62,312
Multifamily	1,902	2,043
Total	$ 60,802	$ 64,355
Single-family and multifamily loss reserves as a percentage of applicable guaranty book of business:		
Single-family[1]	2.05%	2.14%
Multifamily	1.02	1.10
Combined loss reserves as a percentage of:		
Total guaranty book of business[1]	1.99%	2.08%
Total nonperforming loans[1]	27.15	29.73

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

(2) Includes $1.8 billion related to loans of consolidated trusts as of December 31, 2009.

(3) Includes accrued interest of $579 million and $247 million for the three months ended March 31, 2010 and 2009, respectively.

(4) Represents reclassification of amounts recorded in provision for loan losses and charge-offs that relate to allowance for accrued interest receivable.

(5) Includes $903 million and $197 million as of March 31, 2010 and 2009, respectively, for acquired credit-impaired loans.

(6) Includes $34.9 billion related to loans of consolidated trusts as of March 31, 2010.

Our provision for credit losses decreased in the first quarter of 2010 compared with the first quarter of 2009 primarily due to a slowing in the growth, relative to the first half of 2009, of loans that are seriously delinquent, which is partly the result of the home retention and the foreclosure alternative workouts that we completed during the quarter. While we have purchased significantly more delinquent loans from MBS trusts in the first quarter of 2010 compared to the first quarter of 2009, we experienced a significant decline in fair value losses on acquired credit-impaired loans because of our adoption of the new accounting standards. Only purchases of credit-deteriorated loans from unconsolidated MBS trusts or as a result of other credit guarantees generate fair value losses upon acquisition. However, our provision for credit losses, although lower through the first quarter of 2010, remained high and our combined loss reserves remained high due to:

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

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

Certain loan categories continued to contribute disproportionately to the increase in our nonperforming loans and credit losses. These categories include: loans on properties in certain Midwest states, California, Florida, Arizona and Nevada; loans originated in 2006 and 2007; and loans related to higher-risk product types, such as Alt-A loans.

The prolonged decline in home prices has also resulted in negative home equity for some borrowers, especially when the impact of existing second mortgage liens is taken into account, affecting their ability to refinance or willingness to make their mortgage payments, causing higher delinquencies as shown in Table 36: Serious Delinquency Rates.

The number of loans that are seriously delinquent remained high due to delays in foreclosures because: (1) we require servicers to exhaust foreclosure prevention alternatives as part of our efforts to keep borrowers in their homes; (2) recent legislation or judicial changes in the foreclosure process in a number of states have lengthened the foreclosure timeline and (3) some jurisdictions are experiencing foreclosure processing

backlogs due to high foreclosure case volumes.

A greater proportion of the loans in our guaranty book of business are subject to individual impairment rather than the collective reserve for loan losses. We consider a loan to be individually impaired when, based on current information, it is probable that we will not receive all amounts due, including interest, in accordance with the contractual terms of the loan agreement. Individually impaired loans currently include, among others, those restructured in a troubled debt restructuring (TDR), which is a form of restructuring a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty. Any impairment recognized on these loans is part of our provision for loan losses and allowance for loan losses. The higher levels of workouts initiated as a result of our foreclosure prevention efforts during 2009 and into the first quarter of 2010, including HAMP, increased our total number of individually impaired loans, especially those considered to be TDRs, compared with the first quarter of

2009. Frequently, the allowance calculated for an individually impaired loan is greater than the allowance which would be calculated under the collective reserve. Individual impairment is based on the restructured loan s expected cash flows, discounted at the loan s original effective interest rate. Accordingly, as a larger portion of our loan population is modified and restructured in a TDR, the allowance and corresponding provision is likely to increase.

While loans in certain states, certain higher risk categories and our 2006 and 2007 vintages continue to contribute disproportionately to our credit losses, the portion of our combined loss reserves attributable to these loan categories has declined slightly or remained flat as of March 31, 2010 compared with December 31, 2009. The Midwest accounted for approximately 13% of our combined single-family loss reserves as of March 31, 2010 and December 31, 2009. Our mortgage loans in California, Florida, Arizona and Nevada together accounted for approximately 51% of our combined single-family loss reserves as of March 31, 2010, compared with approximately 53% as of December 31, 2009. Our Alt-A loans represented approximately 34% of our combined single-family loss reserves as of March 31, 2010, compared with approximately 35% as of December 31, 2009, and our 2006 and 2007 loan vintages together accounted for approximately 67% of our combined single-family loss reserves as of March 31, 2010, compared with approximately 69% as of December 31, 2009.

We acquired significantly more credit-impaired loans from MBS trusts in the first quarter of 2010 compared with the first quarter of 2009. However, with the adoption of the new accounting standards, only purchases of credit-deteriorated loans from unconsolidated MBS trusts or as a result of other credit guarantees generate fair value losses upon acquisition and accordingly our fair value losses on acquired credit-impaired loans significantly decreased. During the first quarter of 2010, we acquired approximately 289,000 loans of which approximately 700 credit-impaired loans were acquired from unconsolidated MBS trusts or as a result of other credit guarantees and for which we recorded fair value losses of $58 million upon acquisition. During the first quarter of 2009, we acquired approximately 12,200 loans from MBS trusts and recorded fair value losses of $1.5 billion upon acquisition.

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

Our balance of nonperforming single-family loans remained high as of March 31, 2010 due to both high levels of delinquencies and an increase in TDRs. The composition of our nonperforming loans is shown in Table 9. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see Note 4, Mortgage Loans.

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Table 9: Nonperforming Single-Family and Multifamily Loans

	As of March 31, 2010	As of December 31, 2009
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 192,633	$ 34,079
Troubled debt restructurings on accrual status	26,679	6,922
HomeSaver Advance first-lien loans on accrual status	4,430	866
Total on-balance sheet nonperforming loans	223,742	41,867
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts:		
Nonperforming loans, excluding HomeSaver Advance first-lien loans[1]	203	161,406
HomeSaver Advance first-lien loans[2]	1	13,182
Total off-balance sheet nonperforming loans	204	174,588
Total nonperforming loans	$ 223,946	$ 216,455
Accruing on-balance sheet loans past due 90 days or more[3]	$ 1,079	$ 612

	For the Three Months Ended March 31, 2010	For the Year Ended December 31, 2009
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[4]	$ 2,726	$ 1,341
Interest income recognized for the period[5]	1,227	1,206

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

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

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

against the seller in the event of a default.

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

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

Foreclosed Property Expense (Income)

The shift from foreclosed property expense in the first quarter of 2009 to foreclosed property income in the first quarter of 2010 was primarily driven by $562 million of fees recognized from the cancellation and restructuring of some of our mortgage insurance coverage. These fees represented an acceleration of, and discount on, claims to be paid pursuant to the coverage in order to reduce our future exposure to our mortgage insurers. In addition, we had lower valuation adjustments on our REO inventory in the first quarter of 2010, reflecting the stabilization of home prices in some geographic regions. This improvement was offset by an increase in REO holding costs due to the continued rise in foreclosure activity which resulted in higher REO inventory in the first quarter of 2010 compared with the first quarter of 2009.

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Credit Loss Performance Metrics

Our credit-related expenses should be considered in conjunction with our credit loss performance. As our credit losses are now at such high levels, management has shifted focus away from the credit loss ratio to measure performance and has focused more on our loss mitigation strategies and reducing our credit losses on an absolute basis. Historically, management viewed our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as indicators of the effectiveness of our credit risk management strategies.

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

We believe that credit loss performance metrics may be useful to investors because they are metrics widely used by analysts, investors and other companies within the financial services industry. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans and HomeSaver Advance loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 10 details the components of our credit loss performance metrics as well as our average default rate and loss severity.

Table 10: Credit Loss Performance Metrics

	For the Three Months Ended March 31,			
	2010		2009	
	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)			
Charge-offs, net of recoveries	$ 4,844	62.9bp	$ 3,381	45.2bp
Foreclosed property expense (income)	(19)	(0.2)	538	7.2
Credit losses including the effect of fair value losses on acquired credit-impaired loans and HomeSaver Advance loans	4,825	62.7	3,919	52.4
Less: Fair value losses resulting from acquired credit-impaired loans and HomeSaver Advance loans	(58)	(0.8)	(1,525)	(20.4)
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense	380	4.9	89	1.2
Credit losses and credit loss ratio	$ 5,147	66.8bp	$ 2,483	33.2bp
Credit losses attributable to:				
Single-family	$ 5,062		$ 2,465	
Multifamily	85		18	
Total	$ 5,147		$ 2,483	

Average default rate	0.46%	0.17%
Average loss severity rate[2]	35.40	35.60

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

(2) Excludes fair value losses on credit-impaired loans acquired from MBS trusts and HomeSaver Advance loans.

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

Table 11 provides an analysis of our credit losses in certain higher risk loan categories, loan vintages and loans within certain states that continue to account for a disproportionate share of our credit losses as compared with our other loans.

Table 11: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding as of[1]			Percentage of Single-Family Credit Losses For the Three Months Ended March 31,	
	March 31, 2010	December 31, 2009	March 31, 2009	2010	2009
Geographical distribution:					
Arizona, California, Florida and Nevada	28%	28%	27%	58%	58%
Illinois, Indiana, Michigan and Ohio	11	11	11	15	14
All other states	61	61	62	27	28
Select higher risk product features[2]	24	24	27	64	72
Vintages:					
2006	10	11	13	30	32
2007	14	15	19	37	34
All other vintages	76	74	68	33	34

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

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

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

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with OFHEO, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an

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

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Table 12 compares the credit loss sensitivities for the periods indicated for first lien single-family whole loans we own or that back Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancement.

Table 12: Single-Family Credit Loss Sensitivity[1]

	As of	
	March 31, 2010	December 31, 2009
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 21,078	$ 18,311
Less: Projected credit risk sharing proceeds	(3,006)	(2,533)
Net single-family credit loss sensitivity	$ 18,072	$ 15,778
Outstanding single-family whole loans and Fannie Mae MBS[2]	$ 2,793,524	$ 2,830,004
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.65%	0.56%

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

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

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

Federal Income Taxes

We did not recognize an income tax benefit for our current period pre-tax loss as it is more likely than not that we will not generate sufficient taxable income in the foreseeable future to realize our net deferred tax assets. We recognized an income tax benefit in the first quarter of 2010 primarily due to the reversal of a portion of the valuation allowance for deferred tax assets resulting primarily from a settlement agreement reached with the IRS in the first quarter of 2010 for our unrecognized tax benefits for the tax years 1999 through 2004. The tax benefit recognized for the first quarter of 2009 was primarily due to the benefit of carrying back to prior years a portion of our 2009 tax loss, net of

the reversal of the use of certain tax credits.

Financial Impact of the Making Home Affordable Program on Fannie Mae

Home Affordable Refinance Program

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

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Home Affordable Modification Program

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

Impairments and Fair Value Losses on Loans Under HAMP

Table 13 provides information about the impairments and fair value losses associated with mortgage loans owned or guaranteed by Fannie Mae entering trial modifications under HAMP. These amounts have been included in the calculation of our credit-related expenses in our condensed consolidated statements of operations for 2009 and the first quarter of 2010. Please see MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae in our 2009 Form 10-K for a detailed discussion on these impairments and fair value losses.

When we begin to individually assess a loan for impairment, we exclude the loan from the population of loans on which we calculate our collective loss reserves. Table 13 does not reflect the potential reduction of our combined loss reserves from excluding individually impaired loans from this calculation.

Table 13: Impairments and Fair Value Losses on Loans in HAMP[1]

	For the Three Months Ended March 31, 2010	For the Year Ended December 31, 2009
	(Dollars in millions)	
Impairments[2]	$ 7,563	$ 15,777
Fair value losses on credit-impaired loans acquired from MBS trusts[3]	4	10,637
Total	$ 7,567	$ 26,414
Loans entered into a trial modifications under the program	91,700	333,300
Credit-impaired loans acquired from MBS trusts in trial modifications under the program[4]	44	83,700

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

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

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

(4) Excludes loans purchased from consolidated trusts for the three months ended March 31, 2010 for which no fair value losses were recognized.

Servicer and Borrower Incentives

We incurred $95 million in paid and accrued incentive fees for servicers and borrowers in connection with loans modified under HAMP during the first quarter of 2010, which we recorded as part of our Other expenses.

Overall Impact of the Making Home Affordable Program

Because of the unprecedented nature of the circumstances that led to the Making Home Affordable Program, we cannot quantify what the impact would have been on Fannie Mae if the Making Home Affordable Program

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

BUSINESS SEGMENT RESULTS

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

Changes to Segment Reporting

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

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

Segment Reporting in Current Periods Compared with Prior Periods

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

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

Single Family and HCD

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

HCD Only

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

Capital Markets

Line Item	Current Segment Reporting	Prior Segment Reporting
Net interest income	We recognize interest income on interest-earning assets that we own and interest expense on debt that we have	In addition to the assets we own and the debt we issue, we also included interest income on mortgage-related assets

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

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

Segment Results

Table 14 displays our segment results under our current segment reporting presentation for the first quarter of 2010.

Table 14: Business Segment Results

	For the Three Months Ended March 31, 2010					
	Business Segments			Other Activity/Reconciling Items		
	Single Family	HCD	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (expense)	$ (1,945)	$ 4	$ 3,057	$ 1,239	$ 434[3]	$ 2,789
Benefit (provision) for loan losses	(11,945)	6				(11,939)
Net interest income (expense) after provision for loan losses	(13,890)	10	3,057	1,239	434	(9,150)
Guaranty fee income (expense)	1,768	194	(279)	(1,197)[4]	(432)[4]	54
Investment gains (losses), net	2		792	(155)	(473)[5]	166
Net other-than-temporary impairments			(236)			(236)
Fair value losses, net			(1,186)	(35)	(484)[6]	(1,705)
Debt extinguishment losses, net			(55)	(69)		(124)
Losses from partnership investments		(58)				(58)
Fee and other income (expense)	47	35	104	(7)		179
Administrative expenses	(390)	(99)	(116)			(605)
Benefit (provision) for guaranty losses	(11)	47				36
Foreclosed property income (expense)	30	(11)				19
Other income (expenses)	(172)	(6)	27		(21)[8]	(172)
Income (loss) before federal income taxes	(12,616)	112	2,108	(224)	(976)	(11,596)
Provision (benefit) for federal income taxes	(51)	13	(29)			(67)

Net income (loss)	(12,565)	99	2,137	(224)	(976)	(11,529)
Less: Net income attributable to noncontrolling interests					(1)[7]	(1)
Net income (loss) attributable to Fannie Mae	$ (12,565)	$ 99	$ 2,137	$ (224)	$ (977)	$ (11,530)

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

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

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

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

(5) Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as available-for-sale securities that are issued by consolidated trusts and retained in the Capital Markets portfolio. The

adjustment also includes the removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.

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

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

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

Single-Family Business Results

Table 15 summarizes the financial results of the Single-Family business for the first quarter of 2010 under the current segment reporting presentation and for the first quarter of 2009 under the prior segment reporting presentation. The primary sources of revenue for our Single-Family business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses and administrative expenses.

Table 15: Single-Family Business Results

	For the Three Months Ended March 31,	
	2010	**2009**
	(Dollars in millions)	
Statement of operations data:[1]		
Guaranty fee income[2]	$ 1,768	$ 1,966
Credit-related expenses[3]	(11,926)	(20,330)
Other expenses[4]	(2,458)	(339)
Loss before federal income taxes	(12,616)	(18,703)
Benefit for federal income taxes	51	645
Net loss attributable to Fannie Mae	$ (12,565)	$ (18,058)
Other key performance data:		
Single-family effective guaranty fee rate (in basis points)[1][5]	24.4	27.9
Single-family average charged fee on new acquisitions (in basis points)[6]	26.9	21.0
Average single-family guaranty book of business[7]	$ 2,893,988	$ 2,819,459
Single-family Fannie Mae MBS issues[8]	$ 124,358	$ 151,943

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

(2)

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

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

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

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

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

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

(8) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment. Includes $3.1 billion of HFA new issued bond program issuances in the first quarter of 2010.

Guaranty Fee Income

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

The average single-family guaranty book of business increased by 2.6% for the first quarter of 2010 compared with the first quarter of 2009 due to an increase in our average outstanding Fannie Mae MBS and other guarantees throughout 2009 and the first quarter of 2010 as our market share of new single-family mortgage securities issuances remained high and new MBS issuances outpaced liquidations.

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

Credit-Related Expenses

Single-Family credit-related expenses decreased in the first quarter of 2010 compared with the first quarter of 2009 primarily due to a slowing in the growth relative to early 2009 of loans that are seriously delinquent resulting in a lower provision for credit losses. Additionally, because we now recognize loans underlying the substantial majority of our MBS trusts in our condensed consolidated balance sheets, we no longer recognize fair value losses upon acquiring credit-impaired loans from these trusts. Although our credit-related expenses declined in the first quarter of 2010, our charge-offs were higher in the first quarter of 2010 compared with the first quarter of 2009 and our combined loss reserves remained high.

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

Other Expenses

Other expenses in the Single-Family segment consist of net interest income, investments gains and losses, fee and other income, administrative expenses and other expenses. In the first quarter of 2010, other expenses increased primarily due to a decrease in net interest income driven by an increase in forgone interest on nonperforming loans, which increased to $2.7 billion from $217 million in the first quarter of 2009. The increase in forgone interest on nonperforming loans was due to the increase in nonperforming loans in our condensed consolidated balance sheets as a result of our adoption of the new accounting standards.

Benefit for Federal Income Taxes

We recognized an income tax benefit in the first quarter of 2010 due to the reversal of a portion of the valuation allowance for deferred tax assets primarily due to a settlement agreement reached with the IRS in the first quarter of 2010 for our unrecognized tax benefits for the tax years 1999 through 2004. The tax benefit recognized for the first

quarter of 2009 was primarily due to the benefit of carrying back to prior years a portion of our 2009 tax loss, net of the reversal of the use of certain tax credits.

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HCD Business Results

Table 16 summarizes the financial results for our HCD business for the first quarter of 2010 under the current segment reporting presentation and for the first quarter of 2009 under the prior segment reporting presentation. The primary sources of revenue for our HCD business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses, net operating losses associated with our partnership investments, and administrative expenses.

Table 16: HCD Business Results

	For the Three Months Ended March 31,	
	2010	2009
	(Dollars in millions)	
Statement of operations data:[1]		
Guaranty fee income[2]	$ 194	$ 158
Fee and other income	35	27
Losses on partnership investments[3]	(58)	(357)
Credit-related income (expenses)[4]	42	(542)
Other expenses[5]	(101)	(169)
Income (loss) before federal income taxes	112	(883)
Provision for federal income taxes	(13)	(168)
Net income (loss)	99	(1,051)
Less: Net loss attributable to the noncontrolling interests[3]		17
Net income (loss) attributable to Fannie Mae	$ 99	$ (1,034)
Other key performance data:		
Multifamily effective guaranty fee rate (in basis points)[1][6]	41.8	36.3
Credit loss performance ratio (in basis points)[7]	18.3	4.1
Average multifamily guaranty book of business[8]	$ 185,703	$ 174,329
Multifamily Fannie Mae MBS issues[9]	$ 4,073	$ 2,377

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

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

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

noncontrolling interests included in partnership investments income or loss.

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

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

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

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

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

(9) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the HCD segment. Includes $1.0 billion of HFA new issued bond program issuances for the three months ended March 31, 2010.

Guaranty Fee Income

HCD guaranty fee income increased in the first quarter of 2010 compared with the first quarter of 2009 primarily attributable to growth in the average multifamily book of business and higher fees on new acquisitions.

Losses from Partnership Investments

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

Credit-related Income (Expenses)

The shift from credit-related expenses in the first quarter of 2009 to credit-related income in the first quarter of 2010 was driven by a decrease in our multifamily combined loss reserves in the first quarter of 2010 as compared with an increase in this reserve in the first quarter of 2009. We saw a significant increase in our combined multifamily loss reserves in 2009 due to the economic downturn and lack of liquidity in the market, which adversely affected multifamily property values, vacancy rates and rent levels, the cash flows generated from these investments, and refinancing options. These conditions have moderated to a certain degree in the first quarter of 2010 resulting in a slight decrease in our combined multifamily loss reserves.

Although the pace of decline in the multifamily housing market has moderated, our multifamily net charge-offs and foreclosed property expense increased from $18 million in the first quarter of 2009 to $85 million in the first quarter of 2010. The increase in net charge-offs and foreclosed property expenses was driven by the overall economic downturn, including the related adverse impact on multifamily fundamentals which led to growth in our serious delinquency rate and increased defaults over the past year.

Provision for Federal Income Taxes

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

Capital Markets Group Results

Table 17 summarizes the financial results for our Capital Markets group for the first quarter of 2010 under the current segment reporting presentation and for the first quarter of 2009 under the prior segment reporting presentation. Following the table we discuss the Capital Markets group s financial results and describe the Capital Markets group s mortgage portfolio. For a discussion on the debt issued by the Capital Markets group to fund its investment activities, see Liquidity and Capital Management. For a discussion on the derivative instruments that Capital Markets uses to manage interest rate risk, see Note 10, Derivative Instruments. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, other-than-temporary impairment, and administrative expenses.

Table 17: Capital Markets Group Results

	For the Three Months Ended March 31,	
	2010	2009
	(Dollars in millions)	
Statement of operations data:[1]		
Net interest income[2]	$ 3,057	$ 3,295
Investment gains, net[3][4]	792	150
Net other-than-temporary impairments[3]	(236)	(5,653)
Fair value losses, net[5]	(1,186)	(1,460)
Fee and other income	104	69
Other expenses[6]	(423)	(623)
Income (loss) before federal income taxes	2,108	(4,222)
Benefit for federal income taxes	29	146
Net income (loss) attributable to Fannie Mae	$ 2,137	$ (4,076)

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

(2) In 2010, Capital Markets net interest income is reported based on the mortgage-related assets held in the segment s portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts. In 2009, the Capital Markets group s net interest income included interest income on mortgage-related assets underlying MBS trusts that we consolidated under the prior consolidation accounting standards and the interest expense on the corresponding debt of such trusts.

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

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

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

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

related to the extinguishment of debt issued by consolidated trusts were included in the Capital Markets group s results as debt extinguishment gain or loss.

Net Interest Income

Capital Markets group s interest income consists of interest on the segment s interest-earning assets, which differs from interest-earning assets in our condensed consolidated balance sheets. We exclude loans and securities that underlie the consolidated trusts from our Capital Markets group balance sheets. The net interest income reported by the Capital Markets group excludes the interest income earned on assets held by consolidated trusts. As a result, we report interest income and amortization of cost basis adjustments only on securities and loans that are held in our portfolio. For mortgage loans held in our portfolio, after we stop recognizing interest income in accordance with our nonaccrual accounting policy, the Capital Markets group recognizes interest income for reimbursement from Single-Family and HCD for the contractual interest due under the terms of our intracompany guaranty arrangement. Capital Markets group s interest expense consists of contractual interest on the Capital Markets group s interest-bearing liabilities, including the accretion and amortization of any cost basis adjustments. It excludes interest expense on debt issued by consolidated trusts. Therefore, the interest expense recognized on the Capital Markets group income statement is limited to our funding debt, which is reported as Debt of Fannie Mae in our condensed consolidated balance sheets. Net interest expense also includes an allocated cost of capital charge between the three business segments.

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The Capital Markets group s net interest income in the first quarter of 2010 was lower compared with the first quarter of 2009 because the decline in mortgage rates and in average interest-earning assets as portfolio sales and liquidations outpaced purchases more than offset the decline in borrowing rates as we replaced higher cost debt with lower cost debt. In addition, Capital Markets net interest income and net interest yield benefited from funds we received from Treasury under the senior preferred stock purchase agreement as the cost of these funds is included in dividends rather than interest expense. However, the allocation of this benefit to our other segments was higher in the first quarter of 2010 as compared with the first quarter of 2009 reflecting the impact of the cumulative funds received through the first quarter of 2010 and resulting in a larger reduction to the Capital Market s net interest income.

We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in Capital Markets net interest income but is included in our results as a component of Fair value losses, net and is shown in Table 6: Fair Value Gains (Losses), Net. If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets interest expense, Capital Markets net interest income would have decreased by $835 million in the first quarter of 2010 compared with a $940 million decrease in the first quarter of 2009.

Investment Gains, Net

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

Fair Value Losses, Net

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

The gains on our trading securities for the segment during the first quarter of 2010 were attributable to narrowing of spreads on CMBS and a decline in interest rates.

The gains on our trading securities during the first quarter of 2009 were attributable to the significant decline in mortgage interest rates and the narrowing of spreads on agency MBS during the quarter. These gains were partially offset by a decrease in the fair value of our private-label mortgage-related securities backed by Alt-A and subprime loans.

Net Other-Than-Temporary-Impairment

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

Benefit for Federal Income Taxes

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

quarter of 2010 for our unrecognized tax benefits for the tax years 1999 through 2004. The tax benefit recognized for the first quarter of 2009 was primarily due to the benefit of carrying back to prior years a portion of our 2009 tax loss, net of the reversal of the use of certain tax credits.

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The Capital Markets Group s Mortgage Portfolio

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

We are restricted by our senior preferred stock purchase agreement with Treasury in the amount of mortgage assets that we may own. Beginning on December 31, 2010 and each year thereafter, we are required to reduce our Capital Markets group s mortgage portfolio to 90% of the maximum allowable amount we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of mortgage assets we own reaches $250 billion. The maximum allowable amount we may own prior to December 31, 2010 is $900 billion and on December 31, 2010 is $810 billion.

Table 18 summarizes our Capital Markets group s mortgage portfolio activity based on unpaid principal balance for the quarter ended March 31, 2010.

Table 18: Capital Markets Group s Mortgage Portfolio Activity

		For the Three Months Ended March 31, 2010 (Dollars in millions)
Total Capital Markets mortgage portfolio, beginning balance as of January 1, 2010	$	772,728
Mortgage loans:		
Beginning balance as of January 1, 2010		281,162
Purchases		70,561
Securitizations[1]		(14,254)
Liquidations[2]		(7,192)
Mortgage loans, ending balance as of March 31, 2010		330,277
Mortgage securities:		
Beginning balance as of January 1, 2010	$	491,566
Purchases[3]		29,186
Securitizations[1]		14,254
Sales		(79,784)
Liquidations[2]		(20,690)
Mortgage securities, ending balance as of March 31, 2010		434,532
Total Capital Markets mortgage portfolio, ending balance as of March 31, 2010	$	764,809

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

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

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

On February 10, 2010, we announced that we intend to significantly increase our purchases of delinquent loans from single-family MBS trusts. Under our single-family MBS trust documents, we have the option to purchase from MBS trusts loans that are delinquent as to four or more consecutive monthly payments. In March 2010, we purchased approximately 216,000 delinquent loans with an unpaid principal balance of approximately $40 billion from MBS trusts, which increased our Capital Market s mortgage portfolio. As of March 31, 2010, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was approximately $94 billion. In April 2010, we purchased approximately 229,000 delinquent loans with an unpaid principal balance of approximately

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$46 billion from our MBS trusts. We expect to continue to purchase a significant portion of the remaining delinquent population within a few months subject to market conditions, servicer capacity, and other constraints including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement.

Table 19 shows the composition of the Capital Markets mortgage portfolio based on unpaid principal balance as of March 31, 2010 and as of January 1, 2010, immediately after we adopted the new accounting standards.

Table 19: Capital Markets Group s Mortgage Portfolio Composition

	As of	
	March 31, 2010	January 1, 2010
	(Dollars in millions)	
Capital Markets Group s mortgage loans:		
Single-family loans		
Government insured or guaranteed	$ 51,679	$ 51,395
Conventional:		
Long-term, fixed-rate	140,539	94,236
Intermediate-term, fixed-rate	8,273	8,418
Adjustable-rate	21,979	18,493
Total conventional single-family	170,791	121,147
Total single-family loans	222,470	172,542
Multifamily loans		
Government insured or guaranteed	501	521
Conventional:		
Long-term, fixed-rate	4,926	4,941
Intermediate-term, fixed-rate	80,964	81,610
Adjustable-rate	21,416	21,548
Total conventional multifamily	107,306	108,099
Total multifamily loans	107,807	108,620
Total Capital Markets Group s mortgage loans	330,277	281,162
Capital Markets Group s mortgage-related securities:		
Fannie Mae	317,395	358,495
Freddie Mac	27,488	41,390
Ginnie Mae	1,215	1,255
Alt-A private-label securities	24,459	25,133
Subprime private-label securities	19,443	20,001
CMBS	25,633	25,703
Mortgage revenue bonds	13,916	14,448
Other mortgage-related securities	4,983	5,141

Total Capital Markets Group s mortgage-related securities	434,532	491,566
Total Capital Markets Group s mortgage portfolio	$ 764,809	$ 772,728

CONSOLIDATED BALANCE SHEET ANALYSIS

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

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

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

Table 20 presents a summary of our condensed consolidated balance sheets as of March 31, 2010 and December 31, 2009, as well as the impact of the transition to the new accounting standards on January 1, 2010. Following the table is a discussion of material changes in the major components of our assets, liabilities and deficit from January 1, 2010 through March 31, 2010.

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Table 20: Summary of Condensed Consolidated Balance Sheets

	As of			Variance	
	March 31, 2010	January 1, 2010	December 31, 2009	January 1 to March 31, 2010	December 31, 2009 to January 1, 2010
	(Dollars in millions)				
Assets					
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$ 92,923	$ 60,161	$ 60,496	$ 32,762	$ (335)
Restricted cash	45,479	48,653	3,070	(3,174)	45,583
Investments in securities[1]	181,196	161,088	349,667	20,108	(188,579)
Mortgage loans	2,990,307	2,985,445	404,486	4,862	2,580,959
Allowance for loan losses	(60,569)	(53,501)	(9,925)	(7,068)	(43,576)
Mortgage loans, net of allowance for loan losses	2,929,738	2,931,944	394,561	(2,206)	2,537,383
Other assets[2]	44,419	44,389	61,347	30	(16,958)
Total assets	$ 3,293,755	$ 3,246,235	$ 869,141	$ 47,520	$ 2,377,094
Liabilities					
Liabilities and equity (deficit)					
Debt[3]	$ 3,262,844	$ 3,223,054	$ 774,554	$ 39,790	$ 2,448,500
Other liabilities[4]	39,282	35,164	109,868	4,118	(74,704)
Total liabilities	3,302,126	3,258,218	884,422	43,908	2,373,796
Senior preferred stock	76,200	60,900	60,900	15,300	
Other equity (deficit)[5]	(84,571)	(72,883)	(76,181)	(11,688)	3,298
Total stockholders equity (deficit)	(8,371)	(11,983)	(15,281)	3,612	3,298
Total liabilities and stockholders deficit	$ 3,293,755	$ 3,246,235	$ 869,141	$ 47,520	$ 2,377,094

[1] Includes $43.8 billion as of March 31, 2010 and $8.9 billion as of January 1, 2010 and December 31, 2009 of non-mortgage-related securities that are included in our other investments portfolio in Table 21: Cash and Other Investments Portfolio.

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

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

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

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

Cash and Other Investments Portfolio

Table 21 provides information on the composition of our cash and other investments portfolio for the periods indicated.

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Table 21: Cash and Other Investments Portfolio

	As of	
	March 31, 2010	January 1, 2010
	(Dollars in millions)	
Cash and cash equivalents[1]	$ 30,477	$ 6,793
Federal funds sold and securities purchased under agreements to resell or similar arrangements	62,446	53,368
Non-mortgage-related securities:		
U.S. Treasury securities	35,650	3
Asset-backed securities	7,991	8,515
Corporate debt securities	176	364
Total non-mortgage-related securities	43,817	8,882
Total cash and other investments	$ 136,740	$ 69,043

(1) Includes $11.5 billion of U.S. Treasury securities with a maturity at the date of acquisition of three months or less.

Our total cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements and non-mortgage investment securities. Our cash and other investments portfolio increased as of March 31, 2010 compared with January 1, 2010 primarily because of our efforts to improve our liquidity position, including investing in higher quality, more liquid investments, and because we anticipate increased cash needs in 2010 to purchase delinquent loans from MBS trusts. In addition, under direction from FHFA, we diversified our cash and other investments portfolio in the first quarter of 2010 to include U.S. Treasury securities. Our policy mandates that U.S. Treasury securities comprise a significant percentage of our cash and other investments portfolio.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available for sale and are reported at fair value. See Note 6, Investments in Securities for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of March 31, 2010.

Investments in Agency Mortgage-Related Securities

Our investments in agency mortgage-related securities consist of securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. Investments in agency mortgage securities declined to $68.0 billion as of March 31, 2010 compared with $83.7 billion as of January 1, 2010. The decline was due to settlement of sales commitments related to dollar roll transactions.

Investments in Private-Label Mortgage-Related Securities

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

The continued negative impact of the current economic environment, such as sustained weakness in the housing market and high unemployment, has adversely affected the performance of our Alt-A and subprime securities. The unpaid principal balance of our investments in Alt-A and subprime securities, excluding wraps, was $44.3 billion as of March 31, 2010, of which $31.9 billion was rated below investment grade. Table 22 presents the fair value of our investments in Alt-A and subprime private-label securities, excluding wraps, and an analysis of the cumulative losses on these investments as of March 31, 2010.

Table 22: Analysis of Losses on Alt-A and Subprime Private-Label Mortgage-Related Securities (Excluding Wraps)[1]

	As of March 31, 2010				
	Unpaid Principal Balance	Fair Value	Total Cumulative Losses[2]	Noncredit Component[3]	Credit Component[4]
	(Dollars in millions)				
Trading securities:					
Alt-A private-label securities	$ 3,336	$ 1,405	$ (1,877)	$ (719)	$ (1,158)
Subprime private-label securities	2,936	1,683	(1,252)	(382)	(870)
Total Alt-A and subprime private-label securities classified as trading	$ 6,272	$ 3,088	$ (3,129)	$ (1,101)	$ (2,028)
Available-for-sale securities:					
Alt-A private-label securities	$ 21,123	$ 14,458	$ (6,647)	$ (3,301)	$ (3,346)
Subprime private-label securities	16,895	10,511	(6,367)	(2,007)	(4,360)
Total Alt-A and subprime private-label securities classified as available-for-sale	$ 38,018	$ 24,969	$ (13,014)	$ (5,308)	$ (7,706)

(1) Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio. These wraps totaled $5.9 billion as of March 31, 2010.

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

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

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

Table 23 presents the 60 days or more delinquency rates and average loss severities for the loans underlying our Alt-A and subprime private-label mortgage-related securities for the most recent remittance period of the current reporting quarter. The delinquency rates and average loss severities are based on available data provided by Intex Solutions, Inc. (Intex) and First American CoreLogic, LoanPerformance (First American CoreLogic). We also present the average credit enhancement and monoline financial guaranteed amount for these securities as of March 31, 2010. Based on the stressed condition of some of our financial guarantors, we do not believe some of these counterparties will fully meet

their obligation to us in the future. See Risk Management Institutional Counterparty Credit Risk Management Financial Guarantors for additional information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

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Table 23: Credit Statistics of Loans Underlying Alt-A and Subprime Private-Label Mortgage-Related Securities (Including Wraps)

	As of March 31, 2010						
	Unpaid Principal Balance						Monoline Financial Guaranteed Amount[6]
	Trading	Available-for-Sale	Wraps[1]	³ 60 Days Delinquent[2][3]	Average Loss Severity[3][4]	Average Credit Enhancement[3][5]	
	(Dollars in millions)						
Private-label mortgage-related securities backed by:[7]							
Alt-A mortgage loans:							
Option ARM Alt-A mortgage loans:							
2004 and prior	$	$ 566	$	32.4%	51.0%	21.4%	$
2005		1,494		43.0	56.5	44.9	290
2006		1,584		48.5	62.0	42.2	258
2007	2,313			46.2	61.7	62.6	841
Other Alt-A mortgage loans:							
2004 and prior		7,672		9.2	48.0	12.2	16
2005	103	4,817	155	24.0	55.0	9.8	
2006	72	4,850		32.3	53.4	5.7	
2007	848		230	49.4	66.2	34.2	352
2008[8]		140					
Total Alt-A mortgage loans:	3,336	21,123	385				1,757
Subprime mortgage loans:							
2004 and prior[9]		2,378	749	25.3	77.8	59.3	734
2005[8]		247	1,751	47.3	75.6	58.3	233
2006		13,569		54.5	72.4	22.9	52
2007	2,936	701	6,253	53.2	69.1	25.0	190
Total subprime mortgage loans:	2,936	16,895	8,753				1,209
Total Alt-A and subprime mortgage loans:	$ 6,272	$ 38,018	$ 9,138				$ 2,966

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

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

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

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

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

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

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

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

(8) The unpaid principal balance includes private-label REMIC securities that have been resecuritized totaling $140 million for the 2008 vintage of other Alt-A loans and $37 million for the 2005 vintage of subprime loans. These securities are excluded from the delinquency, severity and credit enhancement statistics reported in this table.

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

Mortgage Loans

The mortgage loans reported in our condensed consolidated balance sheets include loans of Fannie Mae and loans of consolidated trusts and are classified as either held for sale or held for investment. The increase in mortgage loans, net of an allowance for loan losses, from January 1, 2010 to March 31, 2010, was primarily driven by securitization activity from our lender swap and portfolio securitization programs, partially offset by scheduled principal paydowns and prepayments.

For additional information on our mortgage loans, see Note 4, Mortgage Loans. For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see Business Segment Results Capital Markets Group Results.

Debt Instruments

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

The increase in debt of consolidated trusts as of March 31, 2010 compared with January 1, 2010 was primarily driven by an increase in sales of Fannie Mae MBS which are accounted for as reissuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificates are transferred from our ownership to a third party.

Derivative Instruments

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

Our derivative assets and liabilities consist of these risk management derivatives and our mortgage commitments. We refer to the difference between the derivative assets and derivative liabilities recorded in our condensed consolidated balance sheets as our net derivative asset or liability. We present, by derivative instrument type, the estimated fair value of derivatives recorded in our condensed consolidated balance sheets

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and the related outstanding notional amount as of March 31, 2010 and December 31, 2009 in Note 10, Derivative Instruments. Table 24 provides an analysis of the factors driving the change from December 31, 2009 to March 31, 2010 in the estimated fair value of our net derivative liability related to our risk management derivatives recorded in our condensed consolidated balance sheets.

Table 24: Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net

	For the Three Months Ended March 31, 2010 (Dollars in millions)	
Net risk management derivative liability as of December 31, 2009	$	(340)
Effect of cash payments:		
Fair value at inception of contracts entered into during the period[1]		268
Fair value at date of termination of contracts settled during the period[2]		347
Net collateral posted		1,375
Periodic net cash contractual interest receipts[3]		(151)
Total cash payments		1,839
Statement of operations impact of recognized amounts:		
Net contractual interest expense accruals on interest rate swaps		(835)
Net change in fair value during the period		(1,326)
Risk management derivatives fair value losses, net		(2,161)
Net risk management derivative liability as of March 31, 2010	$	(662)

(1) Cash payments made to purchase derivative option contracts (purchased option premiums) increase the derivative asset recorded in our condensed consolidated balance sheets. Primarily includes upfront premiums paid on option contracts. Also includes upfront cash paid (received) on other derivative contracts.

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

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

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

Stockholders Deficit

Our net deficit decreased as of March 31, 2010 compared with December 31, 2009. See Table 25 in Supplemental Non-GAAP Information Fair Value Balance Sheets for details of the change in our net deficit.

SUPPLEMENTAL NON-GAAP INFORMATION FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value. Table 26: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets, which we provide at the end of this section, presents our non-GAAP consolidated fair value balance sheets as of March 31, 2010 and December 31, 2009, and the non-GAAP estimated fair value of our net assets.

The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies. It is not intended as a substitute for Fannie Mae s stockholders deficit

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or for the total deficit reported in our GAAP condensed consolidated balance sheets, which represents the net worth measure that is used to determine whether it is necessary to request additional funds from Treasury under the senior preferred stock purchase agreement. Instead, the fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities. The estimated fair value of our net assets, which is derived from our non-GAAP consolidated fair value balance sheets, is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. The ultimate amount of realized credit losses and realized values we receive from holding our assets and liabilities, however, is likely to differ materially from the current estimated fair values, which reflect significant liquidity and risk premiums. Accordingly, the fair value of our net assets attributable to common stockholders presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company; what we expect to draw from the Treasury under the terms of our senior preferred stock purchase agreement; nor does it reflect a liquidation or market value of the company as a whole.

Table 25 summarizes changes in our stockholders deficit reported in our GAAP condensed consolidated balance sheets and in the fair value of our net assets in our non-GAAP consolidated fair value balance sheets as of March 31, 2010.

Table 25: Comparative Measures GAAP Change in Stockholders Deficit and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

		For the Three Months Ended March 31, 2010 (Dollars in millions)
GAAP consolidated balance sheets:		
Fannie Mae stockholders deficit as of December 31, 2009	$	(15,372)
Impact of new accounting standards on Fannie Mae stockholders deficit as of January 1, 2010[1]		3,312
Fannie Mae stockholders deficit as of January 1, 2010[2]		(12,060)
Net loss attributable to Fannie Mae		(11,530)
Changes in net unrealized losses on available-for-sale securities, net of tax		1,318
Reclassification adjustment for other-than-temporary impairments recognized in net loss, net of tax		155
Capital transactions:[3]		
Funds received from Treasury under the senior preferred stock purchase agreement		15,300
Senior preferred stock dividends		(1,527)
Capital transactions, net		13,773
Other equity transactions		(107)
Fannie Mae stockholders deficit as of March 31, 2010[2]	$	(8,451)
Non-GAAP consolidated fair value balance sheets:		
Estimated fair value of net assets as of December 31, 2009	$	(98,792)
Impact of new accounting standards on Fannie Mae estimated fair value of net assets as of January 1, 2010[1]		(52,302)

Estimated fair value of net assets as of January 1, 2010		(151,094)
Capital transactions, net		13,773
Change in estimated fair value of net assets[4]		(7,892)
Increase in estimated fair value of net assets, net		5,881
Estimated fair value of net assets as of March 31, 2010	$	(145,213)

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

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

Fannie Mae s stockholders equity (deficit) and Noncontrolling interests reported in our condensed consolidated balance sheets.

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

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

The fair value of our net assets, including the impact of adopting the new accounting standards and capital transactions, decreased by $46.4 billion from December 31, 2009, which resulted in a fair value net deficit of $145.2 billion as of March 31, 2010. Included in this decrease was $52.3 billion primarily associated with recording delinquent loans underlying consolidated MBS trusts and eliminating our net guaranty obligations related to MBS trusts that were consolidated on January 1, 2010 as a result of adopting the new accounting standards. The fair value of our guaranty obligations is a measure of the credit risk related to mortgage loans underlying Fannie Mae MBS that we assume through our guaranty. With consolidation of MBS trusts and the elimination of our guaranty obligation, we no longer valued our credit risk associated with delinquent loans in consolidated MBS trusts using our guaranty obligation models and began valuing those delinquent loans based on nonperforming loan prices.

Since market participant assumptions inherent in the pricing for nonperforming loans differ from assumptions we use in estimating the fair value of our guaranty obligations, most significantly expected returns and liquidity discounts, consolidation of MBS trusts directly impacted the fair value of our net assets. Market prices for nonperforming loans are reflective of highly negotiated transactions in a principal-to-principal market that often involve loan-level due diligence prior to completion of a transaction. Many of these transactions involve sellers who acquired the loans in distressed transactions and buyers who demand significant return opportunities. As a result, we believe that valuations in the nonperforming loan market understate the economic value of the nonperforming loans. We intend to maximize the value of distressed loans over time, utilizing loan modification, foreclosure, repurchases and other preferable loss resolution techniques (for example, short sales) that to date have resulted in per loan net recoveries materially higher than those that would have been available had they been sold in the distressed loan market.

Had we continued to value our credit risk associated with delinquent loans in consolidated MBS trusts using our guaranty obligation models rather than valuing those loans based on nonperforming loan prices, the fair value of our net assets at March 31, 2010 would have been a net deficit of approximately $104 billion, a $5 billion increase to our December 31, 2009 net deficit of $99 billion.

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

Below we provide additional information that we believe may be useful in understanding our fair value balance sheets, including: (1) an explanation of how fair value is defined and measured; (2) the primary factors driving the decline in the fair value of net assets, excluding capital transactions, during the first quarter of 2010; and (3) the limitations of our non-GAAP consolidated fair value balance sheets and related measures.

Fair Value Measurement

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

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used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in Note 16, Fair Value.

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value is intended to convey the current value of an asset or liability as of the measurement date, not the potential value of the asset or liability that may be realized from future cash flows associated with the asset or liability. Fair value generally incorporates the market s current view of the future, which is reflected in the current price of the asset or liability. Future market conditions, however, may be significantly different than what the market has currently estimated and priced into these fair value measures. Moreover, the fair value balance sheets reflect only the value of the assets and liabilities of the enterprise as of a point in time (the balance sheet date) and do not reflect the value of new assets or liabilities the company may generate in the future. To the extent we intend to hold our mortgage investments until maturity, the amounts we ultimately realize from the maturity, settlement or disposition of these assets may vary significantly from the estimated fair value of these assets as of March 31, 2010.

Our GAAP condensed consolidated balance sheets include a combination of amortized historical cost, fair value and the lower of cost or fair value as the basis for accounting and reporting our assets and liabilities. The principal items that we carry at fair value in our GAAP condensed consolidated balance sheets include our trading and available-for-sale securities and derivative instruments. The substantial majority of our mortgage loans and liabilities, however, are carried at amortized historical cost. Another significant difference between our GAAP condensed consolidated balance sheets and our non-GAAP consolidated fair value balance sheets is the manner in which credit losses are reflected.

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

The following reflects attribution of the primary factors driving the $7.9 billion decrease in the fair value of our net assets, excluding the cumulative effect of our January 1, 2010 adoption of the new accounting standards and capital transactions, during the first quarter of 2010.

A decrease in the fair value of nonperforming loans primarily attributable to an increase in the average delinquency period of the nonperforming loan population.

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

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

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

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

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets Report

We present our non-GAAP fair value balance sheets report in Table 26.

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Table 26: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of March 31, 2010			As of December 31, 2009[1]		
	GAAP Carrying Value	Fair Value Adjustment[2]	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment[2]	Estimated Fair Value
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$ 75,956	$	$ 75,956[3]	$ 9,882	$	$ 9,882[3]
Federal funds sold and securities purchased under agreements to resell or similar arrangements	62,446		62,446[3]	53,684	(28)	53,656[3]
Trading securities	72,529		72,529[3]	111,939		111,939[3]
Available-for-sale securities	108,667		108,667[3]	237,728		237,728[3]
Mortgage loans:						
Mortgage loans held for sale	980	2	982[3]	18,462	153	18,615[3]
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	284,316	(13,532)	270,784[3]	246,509	(5,209)	241,300[3]
Of consolidated trusts	2,644,442	(4,998)[4]	2,639,444[3]	129,590	(45)	129,545[3]
Total mortgage loans	2,929,738	(18,528)	2,911,210	394,561	(5,101)	389,460
Advances to lenders	4,151	(279)	3,872[3]	5,449	(305)	5,144[3]
Derivative assets at fair value	435		435[3]	1,474		1,474[3]
Guaranty assets and buy-ups, net	473	337	810[3][5]	9,520	5,104	14,624[3][5]
Total financial assets	3,254,395	(18,470)	3,235,925			