FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 05, 2011

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

Form 10-Q

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

Commission File No.: 0-50231

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

Fannie Mae

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

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

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

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

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

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

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

As of June 30, 2011, there were 1,158,237,382 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, 2010 (2010 Form 10-K) in Business Conservatorship and Treasury Agreements.

You should read this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2010 Form 10-K.

This report contains forward-looking statements that are based on management s current expectations and are subject to significant uncertainties and changes in circumstances. Please review Forward-Looking Statements for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in these forward-looking statements due to a variety of factors including, but not limited to, those described in Risk Factors and elsewhere in this report and in Risk Factors in our 2010 Form 10-K.

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

INTRODUCTION

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

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

Our common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange on July 8, 2010 and since then has been traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol FNMA. Our debt securities are actively traded in the over-the-counter market.

EXECUTIVE SUMMARY

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

Providing Liquidity and Support to the Mortgage Market

Our Liquidity and Support Activities

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

- We serve as a stable source of funds for purchases of homes and multifamily rental housing, as well as for refinancing existing mortgages. We provided nearly $2 trillion in liquidity to the mortgage market from January 1, 2009 through June 30, 2011 through our purchases and guarantees of mortgage loans, which enabled over 7 million borrowers to purchase homes or refinance loans and financed nearly 857,000 units of multifamily housing.

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

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

- We helped more than 874,000 homeowners struggling to pay their mortgages work out their loans from January 1, 2009 through June 30, 2011, which helped to support neighborhoods, home prices and the housing market.

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

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

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

2011 Acquisitions and Market Share

In the first half of 2011, we purchased or guaranteed approximately $306 billion in loans, measured by unpaid principal balance, which includes approximately $36 billion in delinquent loans we purchased from our single-family

MBS trusts. Excluding delinquent loans purchased from our MBS trusts, our purchases and guarantees during the first half of 2011 enabled our lender customers to finance approximately 1,238,000 single-family conventional loans and loans secured by multifamily properties with approximately 179,000 units. We use the term acquire in this report to refer to both our purchases and our guarantees of mortgage loans.

We remained the largest single issuer of mortgage-related securities in the secondary market during the second quarter of 2011, with an estimated market share of new single-family mortgage-related securities issuances of 43.2%. In comparison, our estimated market share of new single-family mortgage-related securities issuances was 48.6% in the first quarter of 2011 and 39.1% in the second quarter of 2010.

We remained a constant source of liquidity in the multifamily market. We owned or guaranteed approximately one-fifth of the outstanding debt on multifamily properties as of March 31, 2011 (the latest date for which information was available).

Summary of Our Financial Performance for the Second Quarter and First Half of 2011

Our financial results for the second quarter and the first half of 2011 reflect the continued weakness in the housing and mortgage markets, which remain under pressure from high levels of unemployment, underemployment and the prolonged decline in home prices since their peak in the third quarter of 2006. Credit-related expenses continue to be the primary driver of our net losses for each period presented. Our credit-related expenses vary from period to period primarily based on changes in home prices, borrower payment behavior, the types and volumes of loss mitigation activities completed, and actual and estimated recoveries from our lender counterparties.

Comprehensive Loss

Our net loss and total comprehensive loss for the second quarter of 2011 were both $2.9 billion. In comparison, we recognized a total comprehensive loss of $6.3 billion in the first quarter of 2011, consisting of a net loss of $6.5 billion and other comprehensive income of $181 million. We recognized total comprehensive income of $447 million in the second quarter of 2010, consisting of a net loss of $1.2 billion and other comprehensive income of $1.7 billion (primarily driven by a reduction in our unrealized losses due to significantly improved fair value of available-for-sale securities).

Our total comprehensive loss for the first half of 2011 was $9.2 billion, consisting of a net loss of $9.4 billion and other comprehensive income of $183 million. In comparison, we recognized a total comprehensive loss of $9.7 billion in the first half of 2010, consisting of a net loss of $12.8 billion and other comprehensive income of $3.0 billion (primarily driven by a reduction in our unrealized losses due to significantly improved fair value of available-for-sale securities).

Second Quarter 2011 vs. First Quarter 2011. The $3.6 billion decrease in our net loss was primarily due to a $5.0 billion decrease in our credit-related expenses driven by the deterioration in home prices in the first quarter of 2011, which was not present in the second quarter of 2011, and higher amounts received from lenders related to our outstanding repurchase requests. This was partially offset by net fair value losses of $1.6 billion in the second quarter of 2011 driven by losses on our risk management derivatives due to a decline in swap interest rates during the period, compared with net fair value gains of $289 million in the first quarter of 2011.

Second Quarter 2011 vs. Second Quarter 2010. The $1.7 billion increase in our net loss was primarily due to a $1.2 billion increase in credit-related expenses and $1.6 billion in net fair value losses in the second quarter of 2011 driven by losses on our risk management derivatives due to a decline in swap interest rates during the period, compared with $303 million in net fair value gains in the second quarter of 2010. These were partially offset by a $765 million increase in net interest income. The increase in credit-related expenses was primarily driven by an increase in the number of modified loans that are subject to individual impairment, a decrease in home prices on a national basis and the longer period of time that loans continue to remain delinquent, partially offset by higher amounts received from lenders related to our outstanding repurchase requests.

First Half of 2011 vs. First Half of 2010. The $3.4 billion decrease in our net loss was primarily due to a $2.9 billion increase in our net interest income driven by lower funding costs, partially offset by a $366 million increase in our credit-related expenses.

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

Net Worth

Our net worth deficit of $5.1 billion as of June 30, 2011 reflects the recognition of our total comprehensive loss of $2.9 billion and our payment to Treasury of $2.3 billion in senior preferred stock dividends during the second quarter of 2011. The Acting Director of FHFA will submit a request to Treasury on our behalf for $5.1 billion to eliminate our net worth deficit.

In the second quarter of 2011, we received $8.5 billion in funds from Treasury to eliminate our net worth deficit as of March 31, 2011. Upon receipt of the additional funds requested to eliminate our net worth deficit as of June 30, 2011, the aggregate liquidation preference on the senior preferred stock will be $104.8 billion, which will require an annualized dividend payment of $10.5 billion. This amount exceeds our reported annual net income for each year since our inception. Through June 30, 2011, we have paid an aggregate of $14.7 billion to Treasury in dividends on the senior preferred stock.

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

Table 1: Treasury Draw and Dividend Payments

	2008	2009	2010	2011 to date (first half)	Cumulative Total
			(Dollars in billions)		
Senior preferred stock dividends[1]	$	$ 2.5	$ 7.7	$ 4.5	$ 14.7
Treasury draw[2][3]	15.2	60.0	15.0	13.6	103.8
Cumulative percentage of senior preferred stock dividends to Treasury draw	0.2%	3.3%	11.3%	14.2%	14.2%

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

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

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

Total Loss Reserves

Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, increased to $74.8 billion as of June 30, 2011 from $72.1 billion as of March 31, 2011 and $66.3 billion as of December 31, 2010. Our total loss reserve coverage to total nonperforming loans was 36.91% as of June 30, 2011, compared with 34.66% as of March 31, 2011 and 30.85% as of December 31, 2010. The continued stress on a broad segment of borrowers from persistent high levels of unemployment and underemployment and the prolonged decline in home prices have caused our total loss reserves to remain high for the past few years. Further, the shift in our nonperforming loan balance from loans in our collective reserve to loans that are individually impaired has caused our coverage ratio to increase.

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

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

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

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

Building a Strong New Single-Family Book of Business

Expected Profitability of Our Single-Family Acquisitions

Our new single-family book of business has a strong overall credit profile and is performing well. While it is too early to know how loans in our new single-family book of business will ultimately perform, given their strong credit risk profile, low levels of payment delinquencies shortly after acquisition, and low serious delinquency rates, we expect that, over their lifetime, these loans will be profitable, by which we mean they will generate more fee income than credit losses and administrative costs. Table 2 provides information about whether we expect loans we acquired in 1991 through the first half of 2011 to be profitable, and the percentage of our single-family guaranty book of business represented by these loans as of June 30, 2011. The expectations reflected in Table 2 are based on the credit risk profile of the loans we have acquired, which we discuss in more detail in Table 4: Credit Profile of Single-Family Conventional Loans Acquired and in Table 35: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business. These expectations are also based on numerous other assumptions, including our expectations regarding home price declines set forth in Outlook and other macroeconomic factors. As shown in Table 2, we expect loans we have acquired in 2009, 2010 and the first half of 2011 to be profitable over their lifetime. If future macroeconomic conditions turn out to be significantly more adverse than our expectations, these loans could become unprofitable. For example, we believe that these loans would become unprofitable if home prices declined more than 10% from their June 2011 levels over the next five years based on our home price index.

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

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

Loans we have acquired since the beginning of 2009 comprised 47% of our single-family guaranty book of business as of June 30, 2011. Our 2005 to 2008 acquisitions are becoming a smaller percentage of our single-family guaranty book of business, having decreased from 39% of our single-family guaranty book of business as of December 31, 2010 to 34% as of June 30, 2011. Our 2004 acquisitions constituted 5% of our single-family guaranty book of business as of June 30, 2011.

Serious Delinquency Rates by Year of Acquisition

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

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

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

(1) Based on Fannie Mae s Home Price Index (HPI), which measures average price changes based on repeat sales on the same properties. For 2011, the data show an initial estimate based on purchase transactions in Fannie-Freddie acquisition and public deed data available through the end of June 2011, supplemented by preliminary data available for July 2011. Previously reported data has been revised to reflect additional available historical data. Including subsequently available data may lead to materially different results.

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

Credit Profile of Our Single-Family Acquisitions

Single-family loans we purchased or guaranteed from 2005 through 2008 were acquired during a period when home prices were rising rapidly, peaked, and then started to decline sharply, and underwriting and eligibility standards were more relaxed than they are now. These loans were characterized, on average and as discussed below, by higher loan-to-value (LTV) ratios and lower FICO credit scores than loans we have acquired since

January 1, 2009. In addition, many of these loans were Alt-A loans or had other higher-risk loan attributes such as interest-only payment features. As a result of the sharp declines in home prices, 33% of the loans that we acquired from 2005 through 2008 had mark-to-market LTV ratios that were greater than 100% as of June 30, 2011, which means the principal balance of the borrower s primary mortgage exceeded the current market value of the borrower s home. This percentage is higher when second lien loans are included. The sharp decline in home prices, the severe economic recession that began in December 2007 and continued through June 2009, and continuing high unemployment and underemployment have significantly and adversely impacted the performance of loans we acquired from 2005 through 2008. We are taking a number of actions to reduce our credit losses. We discuss these actions and our strategy in Our Strategies and Actions to Reduce Credit Losses on Loans in our Legacy Book of Business and MD&A Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management in this report and in Business Executive Summary Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business in our 2010 Form 10-K.

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

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

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

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

* Represents less than 0.5% of the total acquisitions.

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

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

Improvements in the credit risk profile of our acquisitions since the beginning of 2009 over acquisitions in prior years reflect changes that we made to our pricing and eligibility standards, as well as changes that mortgage insurers made to their eligibility standards. We discuss these changes in our 2010 Form 10-K in Business Executive Summary Our Expectations Regarding Profitability, the Single-Family Loans We Acquired Beginning in 2009, and Credit Losses Credit Profile of Our Single-Family Acquisitions. In addition, the Federal Housing Administration s (FHA) role as the lower-cost option for some consumers for loans with higher LTV ratios reduced our acquisitions of these types of loans after 2008. The credit risk profile of our acquisitions since the beginning of 2009 has been influenced further by its significant percentage of refinanced loans. Refinanced loans generally have better credit profiles than purchase money loans. As we discuss in Outlook below, we expect fewer refinancings in 2011 and 2012 than in 2010.

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In 2010 and 2011 our acquisitions of refinanced loans included a significant number of loans under our Refi Plus[tm] initiative. Refi Plus loans constituted approximately 27% of our total single-family acquisitions in the first half of 2011 and approximately 23% of total single-family acquisitions in all of 2010. Under Refi Plus we acquire refinancings of performing Fannie Mae loans that have current LTV ratios up to 125% and, in some cases, lower FICO credit scores than we generally require. Refi Plus loans reduce the borrowers monthly payments or are otherwise more sustainable than the borrowers old loans. Our acquisitions under Refi Plus include our acquisitions under the Home Affordable Refinance Program (HARP), which was established by the Administration to help borrowers who may be unable to refinance the mortgage loan on their primary residence due to a decline in home values. The LTV ratios at origination for our 2010 and 2011 acquisitions are higher than for our 2009 acquisitions, primarily due to our acquisition of Refi Plus loans. The percentage of loans with LTV ratios at origination greater than 90% has increased from 4% for 2009 acquisitions to 7% for 2010 acquisitions and 10% for acquisitions in the first half of 2011.

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

Expected Losses on Our Legacy Book of Business

The single-family credit losses we realized from January 1, 2009 through June 30, 2011, combined with the amounts we have reserved for single-family credit losses as of June 30, 2011, as described below, total approximately $130 billion. The vast majority of these losses are attributable to single-family loans we purchased or guaranteed from 2005 through 2008.

While loans we acquired in 2005 through 2008 will give rise to additional credit losses that we will realize when the loans are charged off (upon foreclosure or our acceptance of a short sale or deed-in-lieu of foreclosure), we estimate that we have reserved for the substantial majority of the remaining losses on these loans. Even though we believe a substantial majority of the credit losses we have yet to realize on these loans has already been reflected in our results of operations as credit-related expenses, we expect that our credit-related expenses will be higher in 2011 than in 2010 as weakness in the housing and mortgage markets continues. We also expect that future defaults on loans in our legacy book of business and the resulting charge-offs will occur over a period of years. In addition, given the large current and anticipated supply of single-family homes in the market, we anticipate that it will take years before our REO inventory is reduced to pre-2008 levels.

We show how we calculate our realized credit losses in Table 14: Credit Loss Performance Metrics. Our reserves for credit losses described in this discussion consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses (collectively, our total loss reserves), plus the portion of fair value losses on loans purchased out of MBS trusts reflected in our condensed consolidated balance sheets that we estimate represents accelerated credit losses we expect to realize. For more information on our reserves for credit losses, please see Table 11: Total Loss Reserves.

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

Our Strategies and Actions to Reduce Credit Losses on Loans in Our Legacy Book of Business

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

- Reducing defaults;
- Efficiently managing timelines for home retention solutions, foreclosure alternatives, and foreclosures;
- Pursuing foreclosure alternatives to reduce the severity of the losses we incur;
- Managing our REO inventory to reduce costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders and providers of credit enhancement.

Pursuing home retention solutions, such as loan modifications, is a key aspect of our strategy to reduce defaults. We have completed over 603,000 loan modifications since January 1, 2009. Although the high number of modifications we have completed in recent periods has contributed to our credit-related expenses, we believe that, if these modifications are successful in reducing foreclosures and keeping borrowers in their homes, they may benefit the housing market and may help reduce our long-term credit losses from what they otherwise would have been if we had foreclosed on the loans. The ultimate long-term success of our current modification efforts is uncertain and will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices. See Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management Problem Loan Management Loan Workout Metrics for a description of our modification and other home retention efforts. For a description of the impact of modifications on our credit-related expenses, see Consolidated Results of Operations Credit-Related Expenses Provision for Credit Losses.

Improving servicing standards is another key aspect of our strategy to reduce defaults. As described in New Servicing Standards for Delinquent Loans, in June 2011, we issued new servicing standards for delinquent loans pursuant to FHFA s Servicing Alignment Initiative.

For more information on the strategies and actions we are taking to minimize our credit losses, see Business Executive Summary Our Strategies and Actions to Reduce Credit Losses on Loans in our Single-Family Guaranty Book of Business in our 2010 Form 10-K and Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management in our 2010 Form 10-K and in this report.

New Servicing Standards for Delinquent Loans

Our mortgage servicers are the primary point of contact for borrowers and perform a vital role in our efforts to reduce defaults and pursue foreclosure alternatives. In June, we issued new standards for mortgage servicers regarding the management of delinquent loans, default prevention and foreclosure time frames under FHFA s Servicing Alignment Initiative. The Servicing Alignment Initiative is a FHFA-directed effort to establish consistent policies and processes for the servicing of delinquent loans owned or guaranteed by Fannie Mae and Freddie Mac.

These new servicing standards require servicers to take a more consistent approach to borrower communications, loan modifications and other workouts, and, when necessary, foreclosures. The new servicing standards are designed to:

achieve earlier, more frequent and more effective contact with borrowers, including creating a uniform standard for communicating with borrowers;

set clear timelines for the foreclosure process; and improve servicer performance by providing monetary incentives to servicers that exceed specified performance benchmarks for loan workouts and by imposing fees on servicers that fail to meet specified loan workout benchmarks or that fail to meet foreclosure timelines.

Servicers are required to implement the new servicing standards related to the management of delinquent loans and default prevention by no later than October 1, 2011. The new standards relating to foreclosure time frames were effective as of January 1, 2011.

We believe these new servicing standards will increase servicers effectiveness in reaching borrowers, bring greater consistency and clarity to servicer communications with borrowers, and increase the likelihood that servicers will contact borrowers early in the default management process, which is one of the most important factors in reaching a resolution that avoids foreclosure. In addition, in cases where a foreclosure cannot be avoided, we believe these standards will bring greater consistency, fairness and efficiency to the foreclosure process.

Credit Performance

Table 5 presents information for each of the last six quarters about the credit performance of mortgage loans in our single-family guaranty book of business and actions taken by our servicers with borrowers to resolve existing or potential delinquent loan payments. We refer to these actions as workouts. The workout information in Table 5 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

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

	2011			2010				
	Q2 YTD	Q2	Q1	Full Year	Q4	Q3	Q2	Q
	(Dollars in millions)							
e end of each								
delinquency rate[(2)]	4.08%	4.08%	4.27%	4.48%	4.48%	4.56%	4.99%	
orming loans[(3)]	$ 200,793	$ 200,793	$ 206,098	$ 212,858	$ 212,858	$ 212,305	$ 217,216	$ 22
ed property								
y:								
of properties	135,719	135,719	153,224	162,489	162,489	166,787	129,310	10
value	$ 12,480	$ 12,480	$ 14,086	$ 14,955	$ 14,955	$ 16,394	$ 13,043	$ 1
ed loss reserves[(4)]	$ 68,887	$ 68,887	$ 66,240	$ 60,163	$ 60,163	$ 58,451	$ 59,087	$ 5
s reserves[(5)]	$ 73,116	$ 73,116	$ 70,466	$ 64,469	$ 64,469	$ 63,105	$ 64,877	$ 6
he period:								
ed property								
of properties):								
ions[(6)]	107,246	53,697	53,549	262,078	45,962	85,349	68,838	6
ions	(134,016)	(71,202)	(62,814)	(185,744)	(50,260)	(47,872)	(49,517)	(3
elated expenses[(7)]	$ 17,039	$ 5,933	$ 11,106	$ 26,420	$ 4,064	$ 5,559	$ 4,871	$ 1
sses[(8)]	$ 9,414	$ 3,810	$ 5,604	$ 23,133	$ 3,111	$ 8,037	$ 6,923	$

rkout activity of loans):								
tention loan s[9]	119,978	59,019	60,959	440,276	89,691	113,367	132,192	10
losure sales and -lieu of ure	38,296	21,176	17,120	75,391	15,632	20,918	21,515	1
an workouts	158,274	80,195	78,079	515,667	105,323	134,285	153,707	12
rkouts as a ge of delinquent our guaranty book ess[10]	25.37%	25.71%	25.01%	37.30%	30.47%	37.86%	41.18%	

(1) Our single-family guaranty book of business consists of (a) single-family mortgage loans held in our mortgage portfolio, (b) single-family mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we

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provide on single-family mortgage assets, such as long-term standby commitments. It excludes non-Fannie Mae mortgage-related securities held in our mortgage portfolio for which we do not provide a guaranty.

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

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

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

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

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

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

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

(9) Consists of (a) modifications, which do not include trial modifications or repayment plans or forbearances that have been initiated but not completed; (b) repayment plans and forbearances completed and (c) HomeSaver Advance first-lien loans. See Table 39: Statistics on Single-Family Loan Workouts in Risk Management Credit Risk Management for additional information on our various types of loan workouts.

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

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

Although our single-family serious delinquency rate has decreased significantly since February 2010, our serious delinquency rate and the period of time that loans remain seriously delinquent has been negatively affected in recent periods by the increase in the average number of days it is taking to complete a foreclosure. As described in

Foreclosure Delays and Changes in the Foreclosure Environment, continuing issues in the servicer foreclosure process, changes in state foreclosure laws, and new court rules and proceedings have lengthened the time it takes to foreclose on a mortgage loan in many states. We expect serious delinquency rates will continue to be affected in the future by home price changes, changes in other macroeconomic conditions, the length of the foreclosure process, and the extent to which borrowers with modified loans continue to make timely payments.

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

Foreclosure Delays and Changes in the Foreclosure Environment

As described in our 2010 Form 10-K, in the fall of 2010, a number of our single-family mortgage servicers temporarily halted foreclosures in some or all states after discovering deficiencies in their processes and the processes of their service providers relating to the execution of affidavits in connection with the foreclosure process. Although servicers have indicated that they have generally lifted their broad, formal foreclosure pauses, the processing of foreclosures continues to be delayed or halted in many states.

A number of states have changed their foreclosure laws or implemented new court rules or proceedings in response to the servicer foreclosure process deficiencies. These actions have halted or significantly delayed the processing of foreclosures in those states. In addition, servicers continue to process foreclosures at a slow pace, as they work to update their procedures to respond to the recent changes in foreclosure laws and court rules, as well as to remediate the deficiencies in their foreclosure procedures.

The changing foreclosure environment has significantly lengthened the time it takes to foreclose on a mortgage loan in many states, which has increased our credit-related expenses and negatively affected our single-family serious delinquency rates. In addition, our single-family foreclosure rate has decreased from 1.45% for the first half of 2010 to 1.20% for the first half of 2011. We believe these changes in the foreclosure environment will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related expenses. Moreover, we believe these changes in the foreclosure environment will delay the recovery of the housing market because it will take longer to clear the housing market s supply of distressed homes. Distressed homes typically sell at a discount to non-distressed homes and therefore negatively affect overall home prices. See Risk Factors for further information about the potential impact of the foreclosure process deficiencies and resulting changes in the foreclosure environment on our business, results of operations, financial condition and net worth.

Housing and Mortgage Market and Economic Conditions

During the second quarter of 2011, the United States economic recovery continued at a very slow pace. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 1.3% on an annualized basis during the quarter, according to the Bureau of Economic Analysis advance estimate. The overall economy gained an estimated 260,000 jobs in the second quarter as a result of employment growth in the private sector. According to the U.S. Bureau of Labor Statistics, as of June 2011, over the past 12 months there has been an increase of 1.2 million non-farm jobs. The unemployment rate was 9.2% in June 2011, compared with 8.8% in March 2011, based on data from the U.S. Bureau of Labor Statistics. Employment will likely need to post sustained improvement for an extended period to have a positive impact on housing.

Existing home sales remained weak during the second quarter of 2011, averaging below first quarter levels. Sales of foreclosed homes and short sales (distressed sales) continued to represent an outsized portion of the market. Distressed sales accounted for 30% of existing home sales in June 2011, down from 32% in June 2010, according to the National Association of REALTORS®. While new home sales during the second quarter of 2011 were higher than first quarter levels, these sales remained at historically low levels.

The overall mortgage market serious delinquency rate has trended down since peaking in the fourth quarter of 2009 but has remained historically high at 8.1% as of March 31, 2011, according to the Mortgage Bankers Association National Delinquency Survey. While the supply of new single-family homes as measured by the inventory/sales ratio declined to its long-term average level in June, the inventory/sales ratio for existing single-family homes remained above average. Properties that are vacant and held off the market, combined with the portion of properties backing seriously delinquent mortgages not currently listed for sale, represent a significant shadow inventory putting downward pressure on home prices.

We estimate that home prices on a national basis increased by 1.8% in the second quarter of 2011 and have declined by 21.6% 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. The decline in home prices has left many homeowners with negative equity in their mortgages, which means their principal mortgage balance exceeds the current market value of their home. According to CoreLogic, approximately 11 million, or 23%, of all residential properties with mortgages were in a negative equity position in the first quarter of 2011. This increases the risk that borrowers might walk away from their mortgage obligations, causing the loans to become delinquent and proceed to foreclosure.

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During the second quarter of 2011, national multifamily market fundamentals, which include factors such as effective rents and vacancy rates, continued to improve. Based on preliminary third-party data, we estimate that the national multifamily vacancy rate fell to 6.8% in the second quarter of 2011, after having fallen to 7.0% in the first quarter of 2011. In addition, we estimate that asking rents increased in the second quarter of 2011 by nearly 50 basis points on a national basis. As indicated by data from Axiometrics, Inc., multifamily concession rates, the rental discount rate as a percentage of asking rents, declined during the second quarter to -3.5% as of June 2011. The increase in rental demand was also reflected in an estimated increase of 33,000 units in the net number of occupied rental units during the second quarter of 2011, according to preliminary data from REIS, Inc. Although national multifamily market fundamentals continued to improve, certain local markets and properties continued to underperform compared to the rest of the country due to localized underlying economic conditions.

Credit Ratings

While there have been no changes in our credit ratings from December 31, 2010 to August 2, 2011, on July 15, 2011, Standard & Poor s (S&P) placed our long-term and short-term debt ratings on CreditWatch with negative implications, following a similar action on the debt ratings of the U.S. government. A rating being placed on CreditWatch indicates a substantial likelihood of a ratings action by S&P within the next 90 days or is a response to events presenting significant uncertainty to the creditworthiness of an issuer. On July 14, 2011, S&P stated that it may lower the long-term debt rating of the U.S. in the next three months if it concludes that Congress and the Administration have not achieved a credible solution to the rising U.S. government debt burden and are not likely to achieve one in the foreseeable future.

On July 13, 2011, Moody s placed both the U.S. government s rating and our long-term debt ratings on review for possible downgrade. Following the raising of the U.S. government s statutory debt limit on August 2, 2011, Moody s confirmed both the U.S. government s rating and our long-term debt ratings, and removed the designation that these ratings were under review for possible downgrade. However, Moody s revised the rating outlook for both the U.S. government s rating and our long-term debt ratings to negative. In assigning the negative outlook to the U.S. government s rating, Moody s indicated there would be a risk of a downgrade if (1) there is a weakening in fiscal discipline in the coming year; (2) further fiscal consolidation measures are not adopted in 2013; (3) the economic outlook deteriorates significantly; or (4) there is an appreciable rise in the U.S. government s funding costs over and above what is currently expected.

S&P, Moody s and Fitch Ratings (Fitch) have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government.

We currently cannot predict whether one or more of these ratings agencies will downgrade our debt ratings in the future, or how long our ratings will remain subject to review for a possible downgrade by S&P.

Our credit ratings and ratings outlook are included in Liquidity and Capital Management Liquidity Management Credit Ratings. See Risk Factors for a discussion of the risks to our business relating to a decrease in our credit ratings.

Outlook

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

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

We expect the pace of our loan acquisitions for the remainder of 2011 and for 2012 will be lower than in 2010, primarily because we expect fewer refinancings as a result of the high number of mortgages that have already refinanced to low rates in recent years and the anticipated rise in mortgage rates. Our loan acquisitions also could be negatively affected by the decrease in our maximum loan limit in the fourth quarter of 2011. In addition, if FHA continues to be the lower-cost option for some consumers, and in some cases the only option, for loans with higher LTV ratios, our market share could be adversely impacted. As our acquisitions decline, our future revenues will be negatively impacted.

We estimate that total originations in the U.S. single-family mortgage market in 2011 will decrease from 2010 levels by approximately 30%, from an estimated $1.5 trillion to an estimated $1.1 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decline from approximately $1.0 trillion to approximately $573 billion. Refinancings comprised approximately 77% of our single-family business volume in the first half of 2011, compared with 78% for all of 2010.

Home Price Declines. We expect that home prices on a national basis will decline further, with greater declines in some geographic areas than others, before stabilizing in 2012. We currently expect that the peak-to-trough home price decline on a national basis will range between 23% and 29%. 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 housing finance reform; the management of the Federal Reserve s MBS holdings; and the impact of those actions on home prices, unemployment and the general economic and interest rate environment. Because of these uncertainties, the actual home price decline we experience may differ significantly from these estimates. We also expect significant regional variation in home price declines and stabilization.

Our 23% to 29% peak-to-trough home price decline estimate corresponds to an approximate 32% to 40% peak-to-trough decline using the S&P/Case-Shiller index method. Our estimates differ from the S&P/Case-Shiller index in two principal ways: (1) our estimates weight expectations by number of properties, whereas the S&P/Case-Shiller index weights expectations based on property value, causing home price declines on higher priced homes to have a greater effect on the overall result; and (2) our estimates attempt to exclude 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, whereas the S&P/Case-Shiller index includes foreclosed homes sales. We calculate the S&P/Case-Shiller comparison numbers by modifying our internal home price estimates to account for weighting based on property value and the impact of foreclosed property sales. In addition to these differences, our estimates are based on our own internally available data combined with publicly available data, and are therefore based on data collected nationwide, whereas the S&P/Case-Shiller index is based on publicly available data, which may be limited in certain geographic areas of the country. Our comparative calculations to the S&P/Case-Shiller index provided above are not modified to account for this data pool difference. We are working on enhancing our home price estimates to identify and exclude a greater portion of foreclosed home sales. When we begin reporting these enhanced home price estimates, we expect that some period to period comparisons of home prices may differ from those determined using our current estimates.

Credit-Related Expenses and Credit Losses. We expect that our credit-related expenses and our credit losses will be higher in 2011 than in 2010. We describe our credit loss outlook above under Our Strong New Book of Business and Expected Losses on our Legacy Book of Business Expected Losses on Our Legacy Book of Business.

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

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

LEGISLATIVE AND REGULATORY DEVELOPMENTS

GSE Reform

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

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

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

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We expect that Congress will continue to hold hearings and consider legislation in 2011 on the future status of Fannie Mae and Freddie Mac. Several bills have been introduced that would place the GSEs into receivership after a period of time and either grant federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or leave secondary mortgage market activities to entities in the private sector. For example, legislation has been introduced in both the House of Representatives and the Senate that would require FHFA to make a determination within two years of enactment whether the GSEs were financially viable and, if the GSEs were determined not to be financially viable, to place them into receivership. As drafted, these bills may upon enactment impair our ability to issue securities in the capital markets and therefore our ability to conduct our business, absent the federal government providing an explicit guarantee of our existing and ongoing liabilities.

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

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

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

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

Final Rule Regarding Conservatorship and Receivership Operations

On June 20, 2011, FHFA issued a final rule establishing a framework for conservatorship and receivership operations for the GSEs. The final rule, which became effective on July 20, 2011, establishes procedures for conservatorship and receivership, and priorities of claims for contract parties and other claimants. For example, the final rule clarifies that:

- the powers of the conservator or receiver include continuing the missions of a regulated entity and ensuring that the operations of the regulated entity foster liquid, efficient, competitive and resilient national housing finance markets;

- the conservator or receiver may disaffirm or repudiate any contract or lease to which the regulated entity is a party for up to 18 months following the appointment of a conservator or receiver;

- a regulated entity is prohibited from making capital distributions while in conservatorship unless authorized by the Director of FHFA; and

- claims by current or former shareholders (including securities litigation claims) would receive the lowest priority in a receivership, behind: (1) administrative expenses of the receiver (or an immediately preceding conservator), (2) other general or senior liabilities of the regulated entity, and (3) obligations subordinated to those of general creditors.

The final rule also provides that FHFA, as conservator, will not pay securities litigation claims against a regulated entity during conservatorship, unless the Director of FHFA determines it is in the interest of the conservatorship.

The final rule is part of FHFA s implementation of the powers provided by the 2008 Reform Act, and does not seek to anticipate or predict future conservatorships or receiverships.

Proposed Rule Regarding Prudential Management and Operations Standards

On June 20, 2011, FHFA issued a proposed rule establishing prudential standards relating to the management and operations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks in the following ten areas: (1) internal controls and information systems; (2) independence and adequacy of internal audit systems; (3) management of market risk exposure; (4) management of market risk measurement systems, risk limits, stress testing, and monitoring and reporting; (5) adequacy and maintenance of liquidity and reserves; (6) management of asset and investment portfolio growth; (7) investments and acquisitions of assets; (8) overall risk management processes; (9) management of credit and counterparty risk; and (10) maintenance of adequate records. These standards are proposed to be adopted as guidelines, which the Director of FHFA may modify, revoke or add to at any time by order. The proposed rule provides that FHFA may take specified remedial actions if a regulated entity fails to meet one or more of the standards, such as requiring the entity to submit a corrective plan or increasing its capital requirements. FHFA issued the proposed rule pursuant to the requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the 2008 Reform Act (together, the GSE Act).

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Fair Value Measurement

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

Fair Value Hierarchy Level 3 Assets and Liabilities

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

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

Table 6: Level 3 Recurring Financial Assets at Fair Value

Balance Sheet Category	As of June 30, 2011	As of December 31, 2010
	(Dollars in millions)	
Trading securities	$ 4,034	$ 4,576
Available-for-sale securities	30,379	31,934
Mortgage loans	2,365	2,207
Other assets	210	247
Level 3 recurring assets	$ 36,988	$ 38,964
Total assets	$ 3,196,112	$ 3,221,972
Total recurring assets measured at fair value	$ 154,275	$ 161,696
Level 3 recurring assets as a percentage of total assets	1%	1%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	24%	24%
Total recurring assets measured at fair value as a percentage of total assets	5%	5%

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include mortgage loans and acquired property. The fair value of Level 3 nonrecurring assets totaled $51.2 billion during the quarter ended June 30, 2011 and $63.0 billion during the year ended December 31, 2010.

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $1.0 billion as of both June 30, 2011 and December 31, 2010, and other liabilities with a fair value of $131 million as of June 30, 2011 and $143 million as of December 31, 2010.

Total Loss Reserves

Our total loss reserves consist of the following components:

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

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

In the second quarter of 2011, we updated our loan loss models to incorporate more recent data on prepayments of modified loans which contributed to an increase to our allowance for loan losses of approximately $1.5 billion. The change resulted in slower expected prepayment speeds, which extended the expected lives of modified loans and lowered the present value of cash flows on those loans. Also in the second quarter of 2011, we updated our estimate of the reserve for guaranty losses related to private-label mortgage-related securities that we have guaranteed to increase our focus on earlier stage delinquency as a driver of foreclosures in order to reflect changes to the foreclosure environment. This update resulted in an increase to our reserve for guaranty losses included within Other liabilities of approximately $700 million.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Table 7: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Variance	2011	2010	Variance
	(Dollars in millions)					
Net interest income	$ 4,972	$ 4,207	$ 765	$ 9,932	$ 6,996	$ 2,936
Fee and other income	265	294	(29)	502	527	(25)
Net revenues	**$ 5,237**	**$ 4,501**	**$ 736**	**$ 10,434**	**$ 7,523**	**$ 2,911**
Investment gains, net	171	23	148	246	189	57
Net other-than-temporary impairments	(56)	(137)	81	(100)	(373)	273
Fair value (losses) gains, net	(1,634)	303	(1,937)	(1,345)	(1,402)	57
Administrative expenses	(569)	(670)	101	(1,174)	(1,275)	101
Credit-related expenses(1)	(6,059)	(4,851)	(1,208)	(17,101)	(16,735)	(366)
Other non-interest expenses(2)	(75)	(383)	308	(414)	(737)	323
Loss before federal income taxes	(2,985)	(1,214)	(1,771)	(9,454)	(12,810)	3,356
Benefit (provision) for federal income taxes	93	(9)	102	91	58	33
Net loss	**(2,892)**	**(1,223)**	**(1,669)**	**(9,363)**	**(12,752)**	**3,389**
Less: Net (income) loss attributable to the noncontrolling interest	(1)	5	(6)	(1)	4	(5)
Net loss attributable to Fannie Mae	**$ (2,893)**	**$ (1,218)**	**$ (1,675)**	**$ (9,364)**	**$ (12,748)**	**$ 3,384**
Total comprehensive (loss) income attributable to Fannie Mae	$ (2,891)	$ 452	$ (3,343)	$ (9,181)	$ (9,706)	$ 525

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

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

Net Interest Income

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

Table 8: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae[1]	$ 394,687	$ 3,720	3.77%	$ 366,321	$ 3,950	4.31%
Mortgage loans of consolidated trusts[1]	2,614,392	31,613	4.84	2,620,167	33,682	5.14
Total mortgage loans	3,009,079	35,333	4.70	2,986,488	37,632	5.04
Mortgage-related securities	319,395	4,029	5.05	395,600	5,040	5.10
Elimination of Fannie Mae MBS held in portfolio	(204,465)	(2,643)	5.17	(256,163)	(3,387)	5.29
Total mortgage-related securities, net	114,930	1,386	4.82	139,437	1,653	4.74
Non-mortgage securities[2]	76,829	30	0.15	111,294	66	0.23
Federal funds sold and securities purchased under agreements to resell or similar arrangements	21,833	6	0.11	47,571	23	0.19
Advances to lenders	3,144	19	2.39	2,673	18	2.66
Total interest-earning assets	$ 3,225,815	$ 36,774	4.56%	$ 3,287,463	$ 39,392	4.79%
Interest-bearing liabilities:						
Short-term debt[3]	$ 162,071	$ 79	0.19%	$ 234,474	$ 164	0.28%
Long-term debt	589,269	3,802	2.58	579,190	4,975	3.44
Total short-term and long-term funding debt	751,340	3,881	2.07	813,664	5,139	2.53
Debt securities of consolidated trusts	2,657,571	30,564	4.60	2,693,538	33,433	4.96
Elimination of Fannie Mae MBS held in portfolio	(204,465)	(2,643)	5.17	(256,163)	(3,387)	5.29
Total debt securities of consolidated trusts held by third parties	2,453,106	27,921	4.55	2,437,375	30,046	4.93
Total interest-bearing liabilities	$ 3,204,446	$ 31,802	3.97%	$ 3,251,039	$ 35,185	4.33%

Impact of net non-interest bearing funding	$	21,369			0.03%	$	36,424			0.05%
Net interest income/net interest yield			$	4,972	0.62%			$	4,207	0.51%
Net interest income/net interest yield of consolidated trusts(4)			$	1,049	0.16%			$	249	0.04%

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	For the Six Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae[(1)]	$ 399,898	$ 7,445	3.72%	$ 322,926	$ 7,248	4.49%
Mortgage loans of consolidated trusts[(1)]	2,605,087	63,478	4.87	2,664,917	68,003	5.10
Total mortgage loans	3,004,985	70,923	4.72	2,987,843	75,251	5.04
Mortgage-related securities	326,727	8,274	5.06	415,393	10,590	5.10
Elimination of Fannie Mae MBS held in portfolio	(209,418)	(5,436)	5.19	(271,432)	(7,186)	5.29
Total mortgage-related securities, net	117,309	2,838	4.84	143,961	3,404	4.73
Non-mortgage securities[(2)]	78,266	75	0.19	89,200	103	0.23
Federal funds sold and securities purchased under agreements to resell or similar arrangements	17,810	13	0.15	43,838	44	0.20
Advances to lenders	3,614	40	2.20	2,593	36	2.76
Total interest-earning assets	$ 3,221,984	$ 73,889	4.59%	$ 3,267,435	$ 78,838	4.83%
Interest-bearing liabilities:						
Short-term debt[(3)]	$ 150,523	$ 183	0.24%	$ 209,894	$ 280	0.27%
Long-term debt	610,594	7,998	2.62	572,033	10,056	3.52
Total short-term and long-term funding debt	761,117	8,181	2.15	781,927	10,336	2.64
Debt securities of consolidated trusts	2,653,872	61,212	4.61	2,725,177	68,692	5.04
Elimination of Fannie Mae MBS held in portfolio	(209,418)	(5,436)	5.19	(271,432)	(7,186)	5.29
Total debt securities of consolidated trusts held by third parties	2,444,454	55,776	4.56	2,453,745	61,506	5.01
Total interest-bearing liabilities	$ 3,205,571	$ 63,957	3.99%	$ 3,235,672	$ 71,842	4.44%
Impact of net non-interest bearing funding	$ 16,413		0.02%	$ 31,763		0.04%

Net interest income/net interest yield	$	9,932	0.62%	$	6,996	0.43%
Net interest income/net interest yield of consolidated trusts[4]	$	2,266	0.17%	$	(689)	(0.05)%

Selected benchmark interest rates[5]	**As of June 30, 2011**	**2010**
3-month LIBOR	0.25%	0.53%
2-year swap interest rate	0.70	0.97
5-year swap interest rate	2.03	2.06
30-year Fannie Mae MBS par coupon rate	4.02	3.75

(1) Interest income includes interest income on acquired credit-impaired loans of $515 million and $586 million for the three months ended June 30, 2011 and 2010, respectively, and $1.0 billion and $1.2 billion for the six months ended June 30, 2011 and 2010, respectively. These amounts include accretion income of $250 million and $288 million for the three months ended June 30, 2011 and 2010, respectively, and $481 million and $554 million for the six months ended June 30, 2011 and 2010, respectively, relating to a portion of the fair value losses recorded upon the acquisition

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of the loans. Average balance includes loans on nonaccrual status, for which interest income is recognized when collected.

(2) Includes cash equivalents.

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

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

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

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

	For the Three Months Ended June 30, 2011 vs. 2010			For the Six Months Ended June 30, 2011 vs. 2010		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$ (230)	$ 291	$ (521)	$ 197	$ 1,556	$ (1,359)
Mortgage loans of consolidated trusts	(2,069)	(74)	(1,995)	(4,525)	(1,504)	(3,021)
Total mortgage loans	(2,299)	217	(2,516)	(4,328)	52	(4,380)
Mortgage-related securities	(1,011)	(962)	(49)	(2,316)	(2,246)	(70)
Elimination of Fannie Mae MBS held in portfolio	744	670	74	1,750	1,612	138
Total mortgage-related securities, net	(267)	(292)	25	(566)	(634)	68
Non-mortgage securities[2]	(36)	(17)	(19)	(28)	(12)	(16)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(17)	(9)	(8)	(31)	(21)	(10)
Advances to lenders	1	3	(2)	4	12	(8)
Total interest income	(2,618)	(98)	(2,520)	(4,949)	(603)	(4,346)
Interest expense:						
Short-term debt	(85)	(43)	(42)	(97)	(74)	(23)
Long-term debt	(1,173)	85	(1,258)	(2,058)	642	(2,700)
Total short-term and long-term funding debt	(1,258)	42	(1,300)	(2,155)	568	(2,723)
Debt securities of consolidated trusts	(2,869)	(441)	(2,428)	(7,480)	(1,761)	(5,719)
Elimination of Fannie Mae MBS held in portfolio	744	670	74	1,750	1,612	138

Total debt securities of consolidated trusts held by third parties	(2,125)	229	(2,354)	(5,730)	(149)	(5,581)
Total interest expense	(3,383)	271	(3,654)	(7,885)	419	(8,304)
Net interest income	$ 765	$ (369)	$ 1,134	$ 2,936	$ (1,022)	$ 3,958

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

(2) Includes cash equivalents.

Net interest income increased in the second quarter and first half of 2011, as compared with the second quarter and first half of 2010, due to lower interest expense on debt, which was partially offset by lower interest income on loans and securities. The primary drivers of this change were:

- a reduction in the interest expense on debt of consolidated trusts as we have purchased a significant amount of delinquent loans from our MBS trusts since the first quarter of 2010;
- lower interest expense on funding debt due to lower borrowing rates which allowed us to replace higher-cost debt with lower-cost debt;

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

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

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

For the second quarter of 2011, interest income that we did not recognize for nonaccrual mortgage loans, net of recoveries, was $1.4 billion, which resulted in a 17 basis point reduction in net interest yield, compared with $2.2 billion for the second quarter of 2010, which resulted in a 27 basis point reduction in net interest yield. Of the $1.4 billion of interest income that we did not recognize for nonaccrual mortgage loans for the second quarter of 2011, $1.2 billion was related to the unsecuritized mortgage loans that we owned during the period. Of the $2.2 billion of interest income that we did not recognize for nonaccrual mortgage loans for the second quarter of 2010, $1.2 billion was related to the unsecuritized mortgage loans that we owned.

For the first half of 2011, interest income that we did not recognize for nonaccrual mortgage loans, net of recoveries, was $3.0 billion, which resulted in a 18 basis point reduction in net interest yield, compared with $4.9 billion for the first half of 2010, which resulted in a 30 basis point reduction in net interest yield. Of the $3.0 billion of interest income that we did not recognize for nonaccrual mortgage loans for the first half of 2011, $2.5 billion was related to the unsecuritized mortgage loans that we owned during the period. Of the $4.9 billion of interest income that we did not recognize for nonaccrual mortgage loans for the first half of 2010, $1.8 billion was related to the unsecuritized mortgage loans that we owned.

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

Fair Value Gains (Losses), Net

Table 10 presents the components of our fair value gains and losses.

Table 10: Fair Value Gains (Losses), Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$ (658)	$ (756)	$ (1,293)	$ (1,591)
Net change in fair value during the period	(958)	936	(207)	(390)
Total risk management derivatives fair value gains (losses), net	(1,616)	180	(1,500)	(1,981)
Mortgage commitment derivatives fair value losses, net	(61)	(577)	(38)	(1,178)
Total derivatives fair value losses, net	(1,677)	(397)	(1,538)	(3,159)
Trading securities gains, net	135	640	360	1,698
Other, net	(92)	60	(167)	59
Fair value gains (losses), net	$ (1,634)	$ 303	$ (1,345)	$ (1,402)

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

Risk Management Derivatives Fair Value Gains (Losses), Net

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

We recorded risk management derivative gains in the second quarter of 2010 primarily as a result of changes in implied interest rate volatility, partially offset by time decay on our purchased options.

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

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

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

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

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

Trading Securities Gains (Losses), Net

The gains from our trading securities in the second quarter of 2011 were primarily driven by a decrease in interest rates. The gains from our trading securities in the first half of 2011 were primarily driven by the narrowing of credit spreads on commercial mortgage-backed securities (CMBS).

The gains from our trading securities in the second quarter and first half of 2010 were primarily driven by a decrease in interest rates and narrowing of credit spreads.

Credit-Related Expenses

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

Provision for Credit Losses

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

Table 11 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an effective reserve, apart from our total loss reserves, to the extent that we expect to realize credit losses on the acquired loans in the future. We estimate that approximately two-thirds of this amount, as of June 30, 2011, represents credit losses we expect to realize in the future and approximately one-third will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in Credit Loss Performance Metrics.

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Table 11: Total Loss Reserves

	As of	
	June 30, 2011	December 31, 2010
	(Dollars in millions)	
Allowance for loan losses	$ 69,506	$ 61,556
Reserve for guaranty losses[1]	960	323
Combined loss reserves	70,466	61,879
Allowance for accrued interest receivable	3,024	3,414
Allowance for preforeclosure property taxes and insurance receivable[2]	1,267	958
Total loss reserves	74,757	66,251
Fair value losses previously recognized on acquired credit impaired loans[3]	17,693	19,171
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$ 92,450	$ 85,422

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

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

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

We refer to our allowance for loan losses and reserve for guaranty losses collectively as our combined loss reserves. We summarize the changes in our combined loss reserves in Table 12.

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Table 12: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended June 30,					
	2011			2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$ 53,708	$ 13,849	$ 67,557	$ 25,675	$ 34,894	$ 60,569
Provision for loan losses	3,040	2,762	5,802	2,593	1,702	4,295
Charge-offs[1]	(5,460)	(758)	(6,218)	(4,446)	(1,947)	(6,393)
Recoveries	1,819	550	2,369	65	291	356
Transfers[2]	2,762	(2,762)		22,620	(22,620)	
Net reclassifications[3]	97	(101)	(4)	(3,663)	5,418	1,755
Ending balance[4]	$ 55,966	$ 13,540	$ 69,506	$ 42,844	$ 17,738	$ 60,582
Reserve for guaranty losses:						
Beginning balance	$ 257	$	$ 257	$ 233	$	$ 233
Provision for guaranty losses	735		735	69		69
Charge-offs	(33)		(33)	(56)		(56)
Recoveries	1		1			
Ending balance	$ 960	$	$ 960	$ 246	$	$ 246
Combined loss reserves:						
Beginning balance	$ 53,965	$ 13,849	$ 67,814	$ 25,908	$ 34,894	$ 60,802
Total provision for credit losses	3,775	2,762	6,537	2,662	1,702	4,364
Charge-offs[1]	(5,493)	(758)	(6,251)	(4,502)	(1,947)	(6,449)
Recoveries	1,820	550	2,370	65	291	356
Transfers[2]	2,762	(2,762)		22,620	(22,620)	
Net reclassifications[3]	97	(101)	(4)	(3,663)	5,418	1,755
Ending balance[4]	$ 56,926	$ 13,540	$ 70,466	$ 43,090	$ 17,738	$ 60,828

	For the Six Months Ended June 30,					
	2011			2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	$ 48,530	$ 13,026	$ 61,556	$ 8,078	$ 1,847	$ 9,925
Adoption of new accounting standards					43,576	43,576
Provision for loan losses	10,199	6,190	16,389	8,864	7,370	16,234
Charge-offs(1)	(11,165)	(1,206)	(12,371)	(6,151)	(5,402)	(11,553)
Recoveries	2,349	1,502	3,851	162	568	730
Transfers(2)	5,969	(5,969)		36,475	(36,475)	
Net reclassifications(3)	84	(3)	81	(4,584)	6,254	1,670
Ending balance(4)	$ 55,966	$ 13,540	$ 69,506	$ 42,844	$ 17,738	$ 60,582
Reserve for guaranty losses:						
Beginning balance	$ 323	$	$ 323	$ 54,430	$	$ 54,430
Adoption of new accounting standards				(54,103)		(54,103)
Provision for guaranty losses	702		702	33		33
Charge-offs	(68)		(68)	(117)		(117)
Recoveries	3		3	3		3
Ending balance	$ 960	$	$ 960	$ 246	$	$ 246
Combined loss reserves:						
Beginning balance	$ 48,853	$ 13,026	$ 61,879	$ 62,508	$ 1,847	$ 64,355
Adoption of new accounting standards				(54,103)	43,576	(10,527)
Total provision for credit losses	10,901	6,190	17,091	8,897	7,370	16,267
Charge-offs(1)	(11,233)	(1,206)	(12,439)	(6,268)	(5,402)	(11,670)
Recoveries	2,352	1,502	3,854	165	568	733
Transfers(2)	5,969	(5,969)		36,475	(36,475)	
Net reclassifications(3)	84	(3)	81	(4,584)	6,254	1,670
Ending balance(4)	$ 56,926	$ 13,540	$ 70,466	$ 43,090	$ 17,738	$ 60,828

	As of	
	June 30,	December 31,

	2011	2010
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$ 68,887	$ 60,163
Multifamily	1,579	1,716
Total	$ 70,466	$ 61,879
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	2.40%	2.10%
Multifamily	0.82	0.91
Combined loss reserves as a percentage of:		
Total guaranty book of business	2.30%	2.03%
Total nonperforming loans	34.79	28.81

(1) Includes accrued interest of $438 million and $611 million for the three months ended June 30, 2011 and 2010, respectively, and $824 million and $1.2 billion for the six months ended June 30, 2011 and 2010, respectively.

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

(3) Represents reclassification of amounts recorded in provision for loan losses and charge-offs that relate to allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers.

(4) Includes $414 million and $637 million as of June 30, 2011 and 2010, respectively, for acquired credit-impaired loans.

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

Our provision for credit losses increased in the second quarter of 2011 compared with the second quarter of 2010 as our loss reserves grew in the second quarter of 2011 while our loss reserves were relatively flat in the second quarter of 2010. The increase in our loan loss reserves in the second quarter 2011 was driven by:

- an increase in the number of modified loans that are subject to individual impairment;

- a decrease in home prices, on a national basis, since the second quarter of 2010; and

- an increase in the number of days loans are remaining delinquent.

Our provision for credit losses and loss reserves during these periods has also been positively and negatively impacted by other factors. Additional factors that impacted our provision for credit losses in the second quarter of 2011 include:

- Our provision for credit losses benefited from higher amounts received from lenders related to our outstanding repurchase requests. In addition, we revised our estimate for amounts due to us related to outstanding repurchase requests to incorporate additional loan-level attributes which resulted in a decrease in our provision for credit losses and foreclosed property expense of $1.5 billion.

- We updated our estimate of the reserve for guaranty losses related to private-label mortgage-related securities that we have guaranteed to increase our focus on earlier stage delinquency as a driver of foreclosures in order to reflect changes to the foreclosure environment. This update resulted in an increase to our reserve for guaranty losses of approximately $700 million.

- We updated our loan loss models to incorporate more recent data on prepayments of modified loans. The change resulted in slower expected prepayment speeds, which extended the expected lives of modified loans and lowered the present value of cash flows on those loans. This update contributed to an increase to our allowance for loan losses of approximately $1.5 billion.

Factors that impacted our provision for credit losses in the second quarter of 2010 include:

We recognized an out-of-period adjustment of $1.1 billion related to an additional provision for losses on preforeclosure property taxes and insurance receivables.

We updated our allowance for loan loss model to reflect a change in our cohort structure for our severity calculations to use mark-to-market LTV ratios rather than LTV ratios at origination. The update resulted in a decrease in the allowance for loan losses of approximately $1.6 billion.

Our provision for credit losses increased in the first half of 2011 compared with the first half of 2010 due to the reasons described above as well as higher loss severity rates and deterioration of future expected home prices, which drove additional impairment on loans that we have individually impaired.

Because of the substantial volume of loan modifications we completed and the number of loans that entered a trial modification period in 2010 and the first half of 2011, approximately two-thirds of our total loss reserves are attributable to individual impairment rather than the collective reserve for loan losses. Individual impairment for a troubled debt restructuring (TDR) is based on the restructured loan s expected cash flows over the life of the loan, taking into account the effect of any concessions granted to the borrower, discounted at the loan s original effective interest rate. The model includes forward-looking assumptions using multiple scenarios of the future economic environment, including interest rates and home prices. Based on the structure of the modifications, in particular the size of the concession granted, and the performance of modified loans combined with the forward-looking assumptions used in our model, the allowance calculated for an individually impaired loan has generally been greater than the allowance that would be calculated under the collective reserve. Further, if we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure the impairment based on the fair value of the collateral. The loss reserve for a greater portion of our population of individually impaired loans was based on the fair value of the underlying collateral as of June 30, 2011 than as of June 30, 2010.

Additionally, while delinquency rates on loans in our single-family guaranty book of business have decreased, borrowers inability or unwillingness to make their mortgage payments, along with delays in foreclosures, continue to cause loans to remain seriously delinquent for an extended period of time as shown in Table 36: Delinquency Status of Single-Family Conventional Loans.

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

Our balance of nonperforming single-family loans remained high as of June 30, 2011 due to both high levels of delinquencies and an increase in TDRs. When a TDR is executed, the loan status becomes current, but the loan will continue to be classified as a nonperforming loan as the loan is not performing in accordance with the original terms. The composition of our nonperforming loans is shown in Table 13. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see Note 3, Mortgage Loans.

Table 13: Nonperforming Single-Family and Multifamily Loans

	As of June 30, 2011	As of December 31, 2010
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 133,885	$ 152,756
Troubled debt restructurings on accrual status[1]	68,525	61,907
Total on-balance sheet nonperforming loans	202,410	214,663
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[2]	142	89
Total nonperforming loans	$ 202,552	$ 214,752
Accruing on-balance sheet loans past due 90 days or more[3]	$ 758	$ 896

	For the Six Months Ended June 30, 2011	For the Year Ended December 31, 2010
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[(4)]	$ 4,555	$ 8,185
Interest income recognized for the period[(5)]	2,990	7,995

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

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

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

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

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

Foreclosed Property Expense (Income)

Foreclosed property expense and income are displayed in Table 14. The shift from foreclosed property expense in the second quarter of 2010 to foreclosed property income in the second quarter of 2011, and the decline in foreclosed property expense in the first half of 2011 compared with the first half of 2010, was primarily due to an increase in estimated amounts due to or received by us for outstanding repurchase requests. These amounts were recognized in our provision for credit losses and foreclosed property expense and income. The foreclosed property expense in the 2010 periods reflected the recognition of cash fees of $211 million in the second quarter of 2010 and $773 million in the first half of 2010 from the cancellation and restructuring of some of our mortgage insurance coverage; there were no such fees recognized in the second quarter and first half of 2011. 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.

Credit Loss Performance Metrics

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

Historically, management viewed our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as indicators of the effectiveness of our credit risk management strategies. As our credit losses are now at such high levels, management has shifted focus to our loss mitigation strategies and the reduction of our total credit losses and away from the credit loss ratio to measure performance. However, we believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 14 details the components of our credit loss performance metrics as well as our average single-family and multifamily default rate and initial charge-off severity rate.

Table 14: Credit Loss Performance Metrics

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		2010	
	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)	Amount	Ratio(1)(2)
	(Dollars in millions)							
Charge-offs, net of recoveries	$ 3,881	50.4bp	$ 6,093	79.7bp	$ 8,585	55.9bp	$ 10,937	71.2bp
Foreclosed property expense (income)	(478)	(6.2)	487	6.4	10	0.1	468	3.1
Credit losses including the effect of fair value losses on acquired credit-impaired loans	3,403	44.2	6,580	86.1	8,595	56.0	11,405	74.3
Less: Fair value losses resulting from acquired credit-impaired loans	(31)	(0.4)	(47)	(0.6)	(62)	(0.4)	(105)	(0.7)
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense	560	7.3	512	6.7	1,085	7.1	892	5.8
Credit losses and credit loss ratio	$ 3,932	51.1bp	$ 7,045	92.2bp	$ 9,618	62.7bp	$ 12,192	79.4bp
Credit losses attributable to:								
Single-family	$ 3,810		$ 6,923		$ 9,414		$ 11,985	
Multifamily	122		122		204		207	
Total	$ 3,932		$ 7,045		$ 9,618		$ 12,192	
Average single-family default rate		0.46%		0.53%		0.90%		0.99%

Average single-family initial charge-off severity rate[3]	34.47%	34.30%	35.29%	34.80%
Average multifamily default rate	0.17%	0.14%	0.29%	0.24%
Average multifamily initial charge-off severity rate[3]	35.82%	38.74%	36.23%	39.34%

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

(2) Beginning in the second quarter of 2010, expenses relating to preforeclosure taxes and insurance were recorded as charge-offs. These expenses were recorded as foreclosed property expense in the first quarter of 2010. The impact of including these costs in charge-offs was 3.0 basis points for the six months ended June 30, 2010.

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

The decrease in our credit losses in the second quarter and first half of 2011 compared with both the second quarter and first half of 2010 was primarily due to an increase in estimated amounts due to or received by us related to outstanding repurchase requests. While defaults remain high, defaults in the second quarter and first half of 2011 were lower than they would have been due to delays in the foreclosure process. See Executive Summary Foreclosure Delays and Changes in the Foreclosure Environment for information regarding the current foreclosure environment.

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

Regulatory Hypothetical Stress Test Scenario

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

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

Table 15 compares the credit loss sensitivities for the periods indicated for first lien single-family whole loans we own or that back Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 15: Single-Family Credit Loss Sensitivity[1]

	As of	
	June 30, 2011	December 31, 2010
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 29,383	$ 25,937
Less: Projected credit risk sharing proceeds	(2,547)	(2,771)
Net single-family credit loss sensitivity	$ 26,836	$ 23,166
Outstanding single-family whole loans and Fannie Mae MBS	$ 2,795,230	$ 2,782,512
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.96%	0.83%

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

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

Financial Impact of the Making Home Affordable Program on Fannie Mae

Home Affordable Refinance Program

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

Home Affordable Modification Program

We incurred impairments related to loans that had entered a trial modification under the Home Affordable Modification Program (HAMP) of $2.6 billion during the second quarter of 2011 compared with $2.2 billion during the second quarter of 2010. We incurred impairments related to loans that had entered a trial modification under HAMP of $5.2 billion during the first half of 2011, compared with $9.8 billion during the first half of 2010. These include impairments on loans that entered into a trial modification under the program but that have not yet received, or that have been determined to be ineligible for, a permanent modification under the program. These impairments have been included in the calculation of our provision for loan losses in our condensed consolidated results of operations and comprehensive loss. The impairments do not include the reduction in our collective loss reserves which occurred as a result of beginning to individually assess the loan for impairment upon entering a trial modification. Please see MD&A Consolidated Results of Operations Financial Impact of the Making Home Affordable Program on Fannie Mae in our 2010 Form 10-K for a more detailed discussion on these impairments.

We paid or accrued HAMP incentive fees for servicers of $88 million during the second quarter of 2011 compared with $115 million during the second quarter of 2010. We paid or accrued HAMP incentive fees for servicers of $168 million during the first half of 2011, compared with $183 million during the first half of 2010. These fees were related to loans modified under HAMP, which we recorded as part of Other expenses. Borrower incentive payments are included in the calculation of our allowance for loan losses for individually impaired loans. Additionally, our expenses under HAMP also include administrative costs.

Overall Impact of the Making Home Affordable Program

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

BUSINESS SEGMENT RESULTS

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

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

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Single-Family Business Results

Table 16 summarizes the financial results of our Single-Family business for the periods indicated. The primary sources of revenue for our Single-Family business are guaranty fee income and fee and other income. Expenses primarily include credit-related expenses, net interest expense and administrative expenses.

Table 16: Single-Family Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Variance	2011	2010	Variance
	(Dollars in millions)					
Statement of operations data:						
Net interest expense	$ (680)	$ (1,385)	$ 705	$ (1,578)	$ (3,330)	$ 1,752
Guaranty fee income(1)	1,880	1,795	85	3,751	3,563	188
Credit-related expenses(2)	(5,933)	(4,871)	(1,062)	(17,039)	(16,797)	(242)
Other expenses(3)	(372)	(608)	236	(958)	(1,121)	163
Loss before federal income taxes	(5,105)	(5,069)	(36)	(15,824)	(17,685)	1,861
Benefit for federal income taxes	109	1	108	107	52	55
Net loss attributable to Fannie Mae	$ (4,996)	$ (5,068)	$ 72	$ (15,717)	$ (17,633)	$ 1,916
Other key performance data:						
Single-family effective guaranty fee rate (in basis points)(4)	26.1	25.0		26.1	24.7	
Single-family average charged guaranty fee on new acquisitions (in basis points)(5)	31.6	27.3		28.0	27.1	
Average single-family guaranty book of business(6)	$ 2,886,509	$ 2,871,208		$ 2,879,369	$ 2,884,767	
Single-family Fannie Mae MBS issues(7)	$ 102,654	$ 111,457		$ 269,327	$ 235,814	

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

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

(3)

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

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

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

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

(7) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period. Includes Housing Finance Agency (HFA) new issue bond program issuances of $3.1 billion for the first half of 2010. There were no HFA new issue bond program issuances in 2011 or the second quarter of 2010.

Net Interest Expense

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

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

Guaranty Fee Income

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

Our average single-family guaranty book of business was relatively flat period over period despite our continued high market share because of the decline in U.S. residential mortgage debt outstanding primarily due to the continued high level of foreclosures. Our estimated market share of new single-family mortgage-related securities issuances, which is based on publicly available data and excludes previously securitized mortgages, remained high at 43.2% for the second quarter and 46.4% for the first half of 2011.

Credit-Related Expenses

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

Multifamily Business Results

Table 17 summarizes the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income. Expenses and other items that impact income or loss primarily include credit-related expenses, administrative expenses and net operating losses from our partnership investments.

Table 17: Multifamily Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Variance	2011	2010	Variance
	(Dollars in millions)					
Statement of operations data:						
Guaranty fee income[1]	$ 216	$ 195	$ 21	$ 425	$ 389	$ 36
Fee and other income	57	28	29	115	63	52
Gains (losses) from partnership investments[2]	34	(22)	56	22	(80)	102
Credit-related income (expense)[3]	(126)	20	(146)	(62)	62	(124)
Other expenses[4]	(38)	(100)	62	(105)	(201)	96
Income before federal income taxes	143	121	22	395	233	162
Provision for federal income taxes	(56)	(2)	(54)	(61)	(15)	(46)
Net income attributable to Fannie Mae	$ 87	$ 119	$ (32)	$ 334	$ 218	$ 116
Other key performance data:						
Multifamily effective guaranty fee rate (in basis points)[5]	45.2	41.9		44.6	41.9	
Credit loss performance ratio (in basis points)[6]	25.5	26.2		21.4	22.3	
Average multifamily guaranty book of business[7]	$ 191,039	$ 186,105		$ 190,493	$ 185,841	
Multifamily new business volumes[8]	5,439	2,709		10,463	6,871	
Multifamily units financed from new business volumes[9]	96,000	54,000		179,000	115,000	
Fannie Mae multifamily MBS issuances[10]	$ 8,129	$ 2,727		$ 16,710	$ 6,801	
Fannie Mae multifamily structured securities issuances (issued by Capital Markets group)[11]	1,622	772		3,022	2,593	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets Group s results)[12]	222	197		452	402	

Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets Group s portfolio[13]	112,208	116,521	113,272	117,115

	As of	
	June 30, 2011	**December 31, 2010**
	(Dollars in millions)	
Multifamily serious delinquency rate	0.46%	0.71%
Percentage of guaranty book of business with credit enhancement	90	89
Fannie Mae percentage of total multifamily mortgage debt outstanding[14]	20.7	20.5
Fannie Mae multifamily MBS outstanding[15]	$ 89,098	$ 77,251

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

(2) Gains (losses) from partnership investments is included in other expenses in our condensed consolidated statements of operations and comprehensive loss.

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

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

(5) Calculated based on annualized Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.

(6) Calculated based on the annualized credit losses divided by the average multifamily guaranty book of business, expressed in basis points.

(7) 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.

(8) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations) and multifamily loans purchased during the period. Includes $1.0 billion of HFA new issue bond program issuances for the first half of 2010. There were no HFA new issue bond program issuances in 2011 or the second quarter of 2010.

(9) Excludes HFA new issue bond program.

(10) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes: (a) issuances of new MBS volumes, (b) $2.8 billion and $6.3 billion of Fannie Mae portfolio securitization transactions for the second quarter and first half of 2011, and (c) $119 million of conversions of adjustable-rate loans to fixed-rate loans and DMBS securities to MBS securities for the first half of 2011. There were no conversions of adjustable-rate loans to fixed-rate loans and DMBS securities to MBS securities for the second quarter of 2011. There were $256 million of new MBS issuances as a result of converting adjustable rate loans to fixed rate loans in the second quarter and first half of 2010. There were no Fannie Mae multifamily portfolio securitizations transactions for the second quarter or first half of 2010.

(11) Reflects original unpaid principal balance of out-of-portfolio multifamily structured securities issuances by our Capital Markets Group.

(12) Interest expense estimate based on allocated duration-matched funding costs. Net interest income was reduced by guaranty fees allocated to Multifamily from the Capital Markets Group on multifamily loans in Fannie Mae s portfolio.

(13) Based on unpaid principal balance.

(14) Includes mortgage loans and Fannie Mae MBS issued and guaranteed by the Multifamily segment. Information as of June 30, 2011 is through March 31, 2011 and is based on the Federal Reserve s June 2011 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amount may have been changed to reflect revised historical data from the Federal Reserve.

(15) Includes $25.2 billion and $19.9 billion of Fannie Mae multifamily MBS held in the mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of June 30, 2011 and December 31, 2010, respectively; and $1.4 billion of bonds issued by HFAs as of both June 30, 2011 and December 31, 2010.

Guaranty Fee Income

Multifamily guaranty fee income increased in the second quarter and first half of 2011 compared with the second quarter and first half of 2010 primarily due to higher fees charged on new acquisitions in recent years. New acquisitions with higher guaranty fees have become an increasingly large part of our multifamily guaranty book of business.

Credit-Related Income (Expense)

Multifamily credit-related expenses in the second quarter and first half of 2011 were due to credit losses, combined with a stable allowance in the second quarter of 2011, as national improvement in the multifamily market was offset by weakness in certain local markets. In comparison, multifamily credit-related income in the second quarter and first half of 2010 was due to a decrease in the allowance for loan losses as a result of stabilization in cap rates, the use of more current property level financial data, and an improvement in multifamily market fundamentals relative to previously depressed levels.

Multifamily credit losses were $122 million for both the second quarter of 2011 and 2010, and $204 million for the first half of 2011 compared with $207 million for the first half of 2010.

Gains (Losses) from Partnership Investments

Losses from partnership investments in the second quarter and first half of 2010 shifted to gains in the second quarter and first half of 2011 as properties experienced improved operating performance due to stronger national multifamily market fundamentals.

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Provision for Federal Income Taxes

In the second quarter of 2011, we reached an effective settlement of issues with the Internal Revenue Service relating to tax years 2007 and 2008, which reduced our total corporate tax liability. However, the reduction in our tax liability also reduced the low-income housing tax credits we were able to use, resulting in a provision for federal income taxes for the Multifamily segment in the second quarter and first half of 2011.

Capital Markets Group Results

Table 18 summarizes the financial results of our Capital Markets group for the periods indicated. 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 Consolidated Balance Sheet Analysis Derivative Instruments in this report and Risk Management Market Risk Management, Including Interest Rate Risk Management Derivative Instruments and Notes to Consolidated Financial Statements Note 10, Derivative Instruments and Hedging Activities in our 2010 Form 10-K. 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, allocated guaranty fee expense, other-than-temporary impairment and administrative expenses.

Table 18: Capital Markets Group Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Variance	2011	2010	Variance
	(Dollars in millions)					
Statement of operations data:						
Net interest income[(1)]	$ 3,867	$ 3,549	$ 318	$ 7,577	$ 6,606	$ 971
Investment gains, net[(2)]	918	779	139	1,788	1,571	217
Net other-than-temporary impairments	(55)	(137)	82	(99)	(373)	274
Fair value gains (losses), net[(3)]	(1,507)	631	(2,138)	(1,289)	(555)	(734)
Fee and other income	109	136	(27)	184	240	(56)
Other expenses[(4)]	(560)	(538)	(22)	(1,113)	(961)	(152)
Income before federal income taxes	2,772	4,420	(1,648)	7,048	6,528	520
Benefit (provision) for federal income taxes	40	(8)	48	45	21	24
Net income attributable to Fannie Mae	$ 2,812	$ 4,412	$ (1,600)	$ 7,093	$ 6,549	$ 544

(1) Includes contractual interest, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $1.5 billion for the second quarter of both 2011 and 2010. Includes contractual interest, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $3.5 billion for the first half of 2011 compared with $2.3 billion for the first half of 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.

(2) 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.

(3) Fair value gains or losses on trading securities include the trading securities that we own, regardless of whether the trust has been consolidated.

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

Net Interest Income

The Capital Markets group reports 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 mortgage portfolio, when interest income is no longer recognized in accordance with our nonaccrual accounting policy, the Capital Markets group recognizes interest income reimbursements that the group receives, primarily from Single-Family, for the contractual interest due. The interest expense recognized on the Capital Markets group s statement of operations 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 a cost of capital charge allocated among the three business segments.

The Capital Markets group s net interest income increased in the second quarter and first half of 2011 compared with the second quarter and first half of 2010, primarily due to a decline in funding costs as we replaced higher cost debt with lower cost debt. This increase in net interest income due to lower funding costs was partially offset by a decline in interest income from our mortgage portfolio. The reduction of our mortgage securities balance and high balance of nonperforming loans, mainly loans modified in a TDR, and our purchases of delinquent loans from MBS trusts, caused the yield on our portfolio and our interest income to decline. The reimbursements of contractual interest due on nonaccrual loans, from the Single-Family business, were a significant portion of the Capital Markets group s interest income during the second quarter and first half of 2011. However, the increase in these reimbursements was offset by the decline in interest income on our mortgage-related securities because our securities portfolio balance has declined.

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

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 gains (losses), net and is shown in Table 10: 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 $658 million for the second quarter of 2011 compared with a decrease of $756 million for the second quarter of 2010, and would have decreased $1.3 billion for the first half of 2011 compared with a decrease of $1.6 billion for the first half of 2010.

Net Other-Than-Temporary Impairments

The net other-than-temporary impairments recognized by the Capital Markets group is generally consistent with the amount reported in our condensed consolidated results of operations. See Note 5, Investments in Securities for information on our other-than-temporary impairments by major security type and primary drivers for other-than-temporary impairments recorded in the second quarter and first half of 2011.

Fair Value Gains (Losses), Net

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

The gains from our trading securities in the second quarter of 2011 were primarily driven by an improvement in fair values of CMBS and agency MBS due to a decline in interest rates partially offset by losses on private-label securities due to a widening of credit spreads. The gains on our trading securities in the first half of 2011 were primarily driven by the narrowing of credit spreads on CMBS.

The gains from our trading securities in the second quarter and first half of 2010 were primarily driven by a decrease in interest rates and narrowing of credit spreads.

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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 the 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 each December 31 and thereafter, we are required to reduce our mortgage assets to 90% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion. The maximum allowable amount of mortgage assets we may own was reduced to $810 billion as of December 31, 2010 and will be reduced to $729 billion as of December 31, 2011. As of June 30, 2011, we owned $731.8 billion in mortgage assets, compared with $788.8 billion as of December 31, 2010.

Table 19 summarizes our Capital Markets group s mortgage portfolio activity for the periods indicated.

Table 19: Capital Markets Group s Mortgage Portfolio Activity(1)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in millions)			
Mortgage loans:				
Beginning balance	$ 421,856	$ 330,277	$ 427,074	$ 281,162
Purchases	28,290	130,028	66,364	200,589
Securitizations(2)	(22,559)	(13,912)	(46,542)	(28,166)
Liquidations(3)	(22,170)	(20,208)	(41,479)	(27,400)
Mortgage loans, ending balance	405,417	426,185	405,417	426,185
Mortgage securities:				
Beginning balance	$ 335,762	$ 434,532	$ 361,697	$ 491,566
Purchases(4)	4,533	4,678	9,623	33,864
Securitizations(2)	22,559	13,912	46,542	28,166
Sales	(21,635)	(35,604)	(57,061)	(115,388)
Liquidations(3)	(14,835)	(25,903)	(34,417)	(46,593)
Mortgage securities, ending balance	326,384	391,615	326,384	391,615
Total Capital Markets mortgage portfolio	$ 731,801	$ 817,800	$ 731,801	$ 817,800

(1) Based on unpaid principal balance.

(2)

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

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

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

Purchases of mortgage loans decreased in the second quarter and first half of 2011 compared with the second quarter and first half of 2010 because we purchased fewer loans that were four or more months delinquent from MBS trusts in the second quarter and first half of 2011. We began to significantly increase our purchases of delinquent loans in 2010 and during the first half of 2010, we purchased the substantial majority of our delinquent loan population, which included $127 billion of loans that were four or more months delinquent as of December 31, 2009.

We expect to continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other factors including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. We purchased approximately 204,000 delinquent loans with an unpaid principal balance of approximately $36 billion from our single-family MBS trusts in the first half of 2011. As of June 30, 2011, 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 $6.1 billion. In July 2011, we purchased approximately 29,000 delinquent loans with an unpaid principal balance of $5.1 billion from our single-family MBS trusts.

Securitizations increased in the second quarter and first half of 2011 compared with the second quarter and first half of 2010 primarily due to the securitization of $9.3 billion of existing reverse mortgage whole loans from the Capital Markets group s portfolio in the second quarter of 2011. We held these reverse mortgage securities in our Capital Markets group s portfolio as of June 30, 2011.

Table 20 shows the composition of the Capital Markets group s mortgage portfolio as of June 30, 2011 and December 31, 2010.

Table 20: Capital Markets Group s Mortgage Portfolio Composition[1]

	As of	
	June 30, 2011	December 31, 2010
	(Dollars in millions)	
Capital Markets group s mortgage loans:		
Single-family loans		
Government insured or guaranteed	$ 41,849	$ 51,783
Conventional:		
Long-term, fixed-rate	241,766	237,096
Intermediate-term, fixed-rate	9,474	11,446
Adjustable-rate	26,832	31,526
Total single-family conventional	278,072	280,068
Total single-family loans	319,921	331,851
Multifamily loans		
Government insured or guaranteed	396	431
Conventional:		
Long-term, fixed-rate	3,890	4,413
Intermediate-term, fixed-rate	64,248	71,010
Adjustable-rate	16,962	19,369
Total multifamily conventional	85,100	94,792
Total multifamily loans	85,496	95,223
Total Capital Markets group s mortgage loans	405,417	427,074
Capital Markets group s mortgage-related securities:		

Fannie Mae	231,541	260,429
Freddie Mac	14,952	17,332
Ginnie Mae	1,126	1,425
Alt-A private-label securities	20,936	22,283
Subprime private-label securities	17,277	18,038
CMBS	24,500	25,052
Mortgage revenue bonds	11,658	12,525
Other mortgage-related securities	4,394	4,613
Total Capital Markets group s mortgage-related securities[3]	326,384	361,697
Total Capital Markets group s mortgage portfolio	$ 731,801	$ 788,771

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(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $332.2 billion and $365.8 billion as of June 30, 2011 and December 31, 2010, respectively.

The Capital Markets group s mortgage portfolio decreased from December 31, 2010 to June 30, 2011 primarily due to liquidations and sales, partially offset by purchases of delinquent loans from MBS trusts. The total unpaid principal balance of nonperforming loans in the Capital Markets group s mortgage portfolio was $230.8 billion as of June 30, 2011. This population includes loans that have been modified and have been classified as TDRs as well as unmodified delinquent loans that are on nonaccrual status in our condensed consolidated financial statements. We expect our mortgage portfolio to continue to decrease due to the restrictions on the amount of mortgage assets we may own under the terms of our senior preferred stock purchase agreement with Treasury.

CONSOLIDATED BALANCE SHEET ANALYSIS

The section below provides a discussion of our condensed consolidated balance sheets as of the dates indicated. You should read this section together with our condensed consolidated financial statements, including the accompanying notes.

Table 21 presents a summary of our condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010.

Table 21: Summary of Condensed Consolidated Balance Sheets

	As of		
	June 30, 2011	**December 31, 2010**	**Variance**
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$ 33,774	$ 29,048	$ 4,726
Restricted cash	37,579	63,678	(26,099)
Investments in securities(1)	148,523	151,248	(2,725)
Mortgage loans			
Of Fannie Mae	386,722	407,482	(20,760)
Of consolidated trusts	2,610,613	2,577,794	32,819
Allowance for loan losses	(69,506)	(61,556)	(7,950)
Mortgage loans, net of allowance for loan losses	2,927,829	2,923,720	4,109
Other assets(2)	48,407	54,278	(5,871)
Total assets	$ 3,196,112	$ 3,221,972	$ (25,860)
Liabilities and equity (deficit)			
Debt			

Of Fannie Mae	$ 724,799	$ 780,044	$ (55,245)
Of consolidated trusts	2,450,046	2,416,956	33,090
Other liabilities(3)	26,354	27,489	(1,135)
Total liabilities	3,201,199	3,224,489	(23,290)
Senior preferred stock	99,700	88,600	11,100
Other equity (deficit)(4)	(104,787)	(91,117)	(13,670)
Total stockholders equity (deficit)	(5,087)	(2,517)	(2,570)
Total liabilities and stockholders deficit	$ 3,196,112	$ 3,221,972	$ (25,860)

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(1) Includes $38.1 billion as of June 30, 2011 and $32.8 billion as of December 31, 2010 of non-mortgage-related securities that are included in our other investments portfolio, which we present in Table 32: Cash and Other Investments Portfolio.

(2) Consists of accrued interest receivable, net; acquired property, net; and other assets.

(3) Consists of accrued interest payable, federal funds purchased and securities sold under agreements to repurchase, and other liabilities.

(4) Consists of preferred stock, common stock, additional paid-in capital, accumulated deficit, accumulated other comprehensive loss, treasury stock, and noncontrolling interest.

Cash and Other Investments Portfolio

Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements are included in our cash and other investments portfolio. See Liquidity and Capital Management Liquidity Management Cash and Other Investments Portfolio for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes cash payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders. Our restricted cash decreased in the first half of 2011 primarily due to a decline in the volume of refinance activity, resulting in a decrease in unscheduled payments received.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Unrealized and realized gains and losses on trading securities are included as a component of Fair value gains (losses), net and unrealized gains and losses on available-for-sale securities are included in Other comprehensive income in our condensed consolidated statements of operations and comprehensive loss. Realized gains and losses on available-for-sale securities are recognized when securities are sold in Investment gains, net in our condensed consolidated statements of operations and comprehensive loss. See Note 5, Investments in Securities for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of June 30, 2011. Table 22 presents the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of June 30, 2011 and December 31, 2010.

Table 22: Summary of Mortgage-Related Securities at Fair Value

	As of	
	June 30, 2011	**December 31, 2010**
	(Dollars in millions)	
Mortgage-related securities:		

Fannie Mae	$ 27,408	$ 30,226
Freddie Mac	15,927	18,322
Ginnie Mae	1,267	1,629
Alt-A private-label securities	14,670	15,573
Subprime private-label securities	10,368	11,513
CMBS	25,821	25,608
Mortgage revenue bonds	11,089	11,650
Other mortgage-related securities	3,875	3,974
Total	$ 110,425	$ 118,495

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, including sustained weakness in the housing market and high unemployment, has adversely affected the performance of our Alt-A and subprime private-label securities. The unpaid principal balance of our investments in Alt-A and subprime securities was $38.6 billion as of June 30, 2011, of which $31.8 billion was rated below investment grade. Table 23 presents the fair value of our investments in Alt-A and subprime private-label securities and an analysis of the cumulative losses on these investments as of June 30, 2011. As of June 30, 2011, we had realized actual cumulative principal shortfalls of approximately 4% of the total cumulative credit losses reported in this table and reflected in our condensed consolidated financial statements.

Table 23: Analysis of Losses on Alt-A and Subprime Private-Label Mortgage-Related Securities

	As of June 30, 2011				
	Unpaid Principal Balance	Fair Value	Total Cumulative Losses[1]	Noncredit Component[2]	Credit Component[3]
	(Dollars in millions)				
Trading securities:[4]					
Alt-A private-label securities	$ 2,891	$ 1,568	$ (1,278)	$ (115)	$ (1,163)
Subprime private-label securities	2,675	1,459	(1,216)	(308)	(908)
Total	$ 5,566	$ 3,027	$ (2,494)	$ (423)	$ (2,071)
Available-for-sale securities:					
Alt-A private-label securities	$ 18,045	$ 13,102	$ (5,234)	$ (1,811)	$ (3,423)
Subprime private-label securities[5]	14,965	8,909	(6,095)	(1,996)	(4,099)
Total	$ 33,010	$ 22,011	$ (11,329)	$ (3,807)	$ (7,522)
Grand Total	$ 38,576	$ 25,038	$ (13,823)	$ (4,230)	$ (9,593)

(1) Amounts reflect the difference between the fair value and unpaid principal balance net of unamortized premiums, discounts and certain other cost basis adjustments.

(2) 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.

(3)

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 estimated portion of total cumulative other-than-temporary credit impairment losses, net of accretion, that are recognized in earnings.

(4) Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio as Fannie Mae securities.

(5) 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.

Table 24 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 CoreLogic, LoanPerformance (CoreLogic). We also present the average credit enhancement and monoline financial guaranteed amount for these securities as of June 30, 2011. Based on the stressed condition of some of our financial guarantors, we believe some of these counterparties will not fully meet their obligation to us in the future. See Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management Financial Guarantors for additional

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information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

Table 24: Credit Statistics of Loans Underlying Alt-A and Subprime Private-Label Mortgage-Related Securities (Including Wraps)

	As of June 30, 2011						
	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	$	$ 498	$	31.9%	48.6%	17.3%	$
2005		1,349		45.1	57.8	42.2	262
2006		1,289		47.2	64.2	31.9	130
2007	2,010			45.5	65.8	58.3	716
Other Alt-A mortgage loans:							
2004 and prior		6,508		10.3	58.8	12.4	13
2005	87	4,236	123	23.7	58.3	6.1	
2006	66	4,043		29.6	59.0	1.1	
2007	728		188	42.8	66.5	28.6	298
2008[8]		122					
Total Alt-A mortgage loans:	2,891	18,045	311				1,419
Subprime mortgage loans:							
2004 and prior[9]		2,109	631	24.1	75.3	60.6	661
2005[8]		188	1,378	42.5	77.2	58.2	228
2006		12,044		47.9	77.6	18.6	52
2007	2,675	624	5,631	48.7	76.0	22.9	180
Total subprime mortgage loans:	2,675	14,965	7,640				1,121
Total Alt-A and subprime mortgage loans:	$ 5,566	$ 33,010	$ 7,951				$ 2,540

(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 reflect information from June 2011 remittances for May 2011 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 CoreLogic, where available, for loans backing Alt-A and subprime private-label mortgage-related securities that we own or guarantee. The CoreLogic severity data reflect information from June 2011 remittances for May 2011 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 enhancements 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 $122 million for the 2008 vintage of other Alt-A loans and $17 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.

Mortgage Loans

The increase in mortgage loans, net of an allowance for loan losses, in the first half of 2011 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 3, 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

Debt of Fannie Mae is the primary means of funding our mortgage investments. 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 June 30, 2011 and 2010 in Liquidity and Capital Management Liquidity Management Debt Funding. Also see Note 8, Short-Term Borrowings and Long-Term Debt for additional information on our outstanding debt.

The increase in debt of consolidated trusts in the first half of 2011 was primarily driven by the sale 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 and the related outstanding notional amounts as of June 30, 2011 and December 31, 2010 in Note 9, Derivative Instruments. Table 25 provides an analysis of the factors driving the change from December 31, 2010 to June 30, 2011 in the estimated fair value of our net derivative liability related to our risk management derivatives recorded in our condensed consolidated balance sheets.

Table 25: Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net

	For the Six Months Ended June 30, 2011 (Dollars in millions)
Net risk management derivative liability as of December 31, 2010	$ (789)
Effect of cash payments:	
Fair value at inception of contracts entered into during the period[1]	62
Fair value at date of termination of contracts settled during the period[2]	1,265
Net collateral received	(92)
Periodic net cash contractual interest payments[3]	1,213
Total cash payments	2,448
Statement of operations impact of recognized amounts:	
Net contractual interest expense accruals on interest rate swaps	(1,293)
Net change in fair value during the period	(207)
Risk management derivatives fair value losses, net	(1,500)
Net risk management derivative asset as of June 30, 2011	$ 159

[1] Cash receipts from sale of derivative option contracts increase the derivative liability recorded in our condensed consolidated balance sheets. Cash payments made to purchase derivative option contracts (purchased option premiums) increase the derivative asset recorded in our condensed consolidated balance sheets.

[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 and comprehensive loss. Net periodic interest receipts reduce the derivative asset and net periodic interest payments reduce the derivative liability. Also includes cash paid (received) on other derivatives contracts.

For additional information on our derivative instruments, see Consolidated Results of Operations Fair Value Gains (Losses), Net, Risk Management Market Risk Management, Including Interest Rate Risk Management and Note 9, Derivative Instruments.

Stockholders Deficit

Our net deficit increased as of June 30, 2011 compared with December 31, 2010. See Table 26 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 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 for the six months ended June 30, 2011. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. 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 used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in Note 13, Fair Value.

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Table 26: Comparative Measures GAAP Change in Stockholders Deficit and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For the Six Months Ended June 30, 2011 (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders deficit as of December 31, 2010[1]	$ (2,599)
Total comprehensive loss	(9,180)
Capital transactions:[2]	
Funds received from Treasury under the senior preferred stock purchase agreement	11,100
Senior preferred stock dividends	(4,497)
Capital transactions, net	6,603
Other	8
Fannie Mae stockholders deficit as of June 30, 2011[1]	$ (5,168)
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2010	$ (120,294)
Capital transactions, net	6,603
Change in estimated fair value of net assets, excluding capital transactions	(14,319)
Decrease in estimated fair value of net assets, net	(7,716)
Estimated fair value of net assets as of June 30, 2011	$ (128,010)

(1) 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, consists of Total Fannie Mae s stockholders deficit and Noncontrolling interests reported in our condensed consolidated balance sheets.

(2) Represents capital transactions, which are reported in our condensed consolidated financial statements.

The $14.3 billion decrease in the fair value of our net assets, excluding capital transactions, during the first half of 2011 was attributable to:

A net decrease in the fair value due to credit-related items principally related to declining actual and expected home prices as well as a decrease in the estimated rate of prepayments, which increased the expected life of the guaranty book of business and increased expected credit losses. This net decrease due to credit-related items was partially offset by

An increase in the fair value of the net portfolio attributable to the positive impact of 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 legislation or 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. 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.

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In addition, 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 or what we expect to draw from Treasury under the terms of our senior preferred stock purchase agreement, primarily because:

- The estimated fair value of our credit exposures significantly exceeds our projected credit losses as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation. Because we do not intend to have another party assume the credit risk inherent in our book of business, and therefore would not be obligated to pay a market premium for its assumption, we do not expect the current market premium portion of our current estimate of fair value to impact future Treasury draws;

- The fair value balance sheet does not reflect amounts we expect to draw in the future to pay dividends on the senior preferred stock; and

- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

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.

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We present our non-GAAP fair value balance sheets in Table 27 below.

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Table 27: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of June 30, 2011			As of December 31, 2010		
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value
	(Dollars in millions)					
ssets:						
ash and cash equivalents	$ 51,853	$	$ 51,853	$ 80,975	$	$ 80,975
ederal funds sold and curities purchased under greements to resell or milar arrangements	19,500		19,500	11,751		11,751
rading securities	61,907		61,907	56,856		56,856
vailable-for-sale securities	86,616		86,616	94,392		94,392
ortgage loans:						
ortgage loans held for sale	439		439	915		915
ortgage loans held for vestment, net of allowance r loan losses:						
f Fannie Mae	330,390	(30,847)	299,543	358,698	(39,331)	319,367
f consolidated trusts	2,597,000	42,555(2)	2,639,555(3)	2,564,107	46,038(2)	2,610,145(3)
otal mortgage loans	2,927,829	11,708	2,939,537(4)	2,923,720	6,707	2,930,427(4)
dvances to lenders	3,829	(188)	3,641(5)(6)	7,215	(225)	6,990(5)(6)
erivative assets at fair alue	668		668(5)(6)	1,137		1,137(5)(6)
uaranty assets and buy-ups, et	483	446	929(5)(6)	458	356	814(5)(6)
otal financial assets	3,152,685	11,966	3,164,651(7)	3,176,504	6,838	3,183,342(7)
redit enhancements	471	2,958	3,429(5)(6)	479	3,286	3,765(5)(6)
ther assets	42,956	(267)	42,689(5)(6)	44,989	(261)	44,728(5)(6)
otal assets	$ 3,196,112	$ 14,657	$ 3,210,769	$ 3,221,972	$ 9,863	$ 3,231,835
iabilities:						
ederal funds purchased and curities sold under greements to repurchase	$	$	$	$ 52	$ (1)	$ 51
hort-term debt:						
f Fannie Mae	162,005	36	162,041	151,884	90	151,974
f consolidated trusts	5,193	1	5,194	5,359		5,359
ong-term debt:						
f Fannie Mae	562,794(8)	22,604	585,398	628,160(8)	21,524	649,684

f consolidated trusts	2,444,853[8]	113,038[2]	2,557,891	2,411,597[8]	103,332[2]	2,514,929
erivative liabilities at fair alue	592		592[9][10]	1,715		1,715[9][10]
uaranty obligations	778	2,922	3,700[9][10]	769	3,085	3,854[9][10]
otal financial liabilities	3,176,215	138,601	3,314,816[7]	3,199,536	128,030	3,327,566[7]
ther liabilities	24,984	(1,102)	23,882[9][10]	24,953	(472)	24,481[9][10]
otal liabilities	3,201,199	137,499	3,338,698	3,224,489	127,558	3,352,047
quity (deficit):						
annie Mae stockholders quity (deficit):						
enior preferred[11]	99,700		99,700	88,600		88,600
referred	19,130	(17,593)	1,537	20,204	(19,829)	375
ommon	(123,998)	(105,249)	(229,247)	(111,403)	(97,866)	(209,269)
otal Fannie Mae ockholders eficit/non-GAAP fair alue of net assets	**$ (5,168)**	**$ (122,842)**	**$ (128,010)**	**$ (2,599)**	**$ (117,695)**	**$ (120,294)**
oncontrolling interests	81		81	82		82
otal deficit	(5,087)	(122,842)	(127,929)	(2,517)	(117,695)	(120,212)
otal liabilities and equity eficit)	$ 3,196,112	$ 14,657	$ 3,210,769	$ 3,221,972	$ 9,863	$ 3,231,835

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Each of the amounts listed as a fair value adjustment represents the difference between the carrying value included in our GAAP condensed consolidated balance sheets and our best judgment of the estimated fair value of the listed item.

(2) Fair value exceeds carrying value of consolidated loans and consolidated debt as a significant portion of these were consolidated at unpaid principal balance as of January 1, 2010, upon adoption of accounting standards on transfers of financial assets and

consolidation of variable interest entities (VIEs). Also impacting the difference between fair value and carrying value of the consolidated loans is the credit component included in consolidated loans, which has no corresponding impact on the consolidated debt.

(3) Includes certain mortgage loans that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $3.1 billion and $3.0 billion as of June 30, 2011 and December 31, 2010, respectively.

(4) Performing loans had both a fair value and an unpaid principal balance of $2.8 trillion as of June 30, 2011 compared with a fair value of $2.8 trillion and an unpaid principal balance of $2.7 trillion as of December 31, 2010. Nonperforming loans, which include loans that are delinquent by one or more payments, had a fair value of $139.7 billion and an unpaid principal balance of $247.3 billion as of June 30, 2011 compared with a fair value of $168.5 billion and an unpaid principal balance of $287.4 billion as of December 31, 2010. See Note 13, Fair Value for additional information on valuation techniques for performing and nonperforming loans.

(5) The following line items: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; (d) Credit enhancements; and (e) Other assets, together consist of the following assets presented in our GAAP condensed consolidated balance sheets: (a) Accrued interest receivable, net; (b) Acquired property, net; and (c) Other assets.

(6) Other assets include the following GAAP condensed consolidated balance sheets line items: (a) Accrued interest receivable, net and (b) Acquired property, net. The carrying value of these items in our GAAP condensed consolidated balance sheets totaled $24.3 billion and $27.5 billion as of June 30, 2011 and December 31, 2010, respectively. Other assets in our GAAP condensed consolidated balance sheets include the following: (a) Advances to Lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; and (d) Credit enhancements. The carrying value of these items totaled $5.5 billion and $9.3 billion as of June 30, 2011 and December 31, 2010, respectively.

(7) We determined the estimated fair value of these financial instruments in accordance with the fair value accounting standard as described in Note 13, Fair Value.

(8) Includes certain long-term debt instruments that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $4.1 billion and $3.2 billion as of June 30, 2011 and December 31, 2010, respectively.

(9) The following line items: (a) Derivative liabilities at fair value; (b) Guaranty obligations; and (c) Other liabilities, consist of the following liabilities presented in our GAAP condensed consolidated balance sheets: (a) Accrued interest payable and (b) Other liabilities.

(10) Other liabilities include Accrued interest payable in our GAAP condensed consolidated balance sheets. The carrying value of this item in our GAAP condensed consolidated balance sheets totaled $13.3 billion and $13.8 billion as of June 30, 2011 and December 31, 2010, respectively. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the Reserve for guaranty losses as part of Other liabilities in our GAAP condensed consolidated balance sheets, it is incorporated into and reported as part of the fair value of our guaranty obligations in our non-GAAP supplemental consolidated fair value balance sheets. Other liabilities in our GAAP condensed consolidated balance sheets include the following: (a) Derivative liabilities at fair value and (b) Guaranty obligations. The carrying value of these items totaled $1.4 billion and $2.5 billion as of June 30, 2011 and December 31, 2010, respectively.

(11)

The amount included in estimated fair value of the senior preferred stock is the liquidation preference, which is the same as the GAAP carrying value, and does not reflect fair value.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. Our liquidity risk management policy is designed to address our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity risk management involves forecasting funding requirements and maintaining sufficient capacity to meet these needs.

Our Treasury group is responsible for implementing our liquidity and contingency planning strategies. We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. We plan for alternative sources of liquidity that are designed to allow us to meet our cash obligations without relying upon the issuance of unsecured debt. While our liquidity contingency planning attempts to address stressed market conditions and our status under conservatorship and Treasury arrangements, we believe that our liquidity contingency plan may be difficult or impossible to execute for a company of our size in our circumstances. See Liquidity and Capital Management Liquidity Management Liquidity Risk Management Practices and Contingency Planning in our 2010 Form 10-K for a discussion of our liquidity contingency plans. Also see Risk Factors in this report for a description of the risks associated with our liquidity contingency planning.

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

Debt Funding

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to roll-over, or refinancing, risk on our outstanding debt.

We have a diversified funding base of domestic and international investors. Purchasers of our debt securities are geographically diversified and include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments, and other municipal authorities.

Although our funding needs may vary from quarter to quarter depending on market conditions, we currently expect our debt funding needs will decline in future periods as we reduce the size of our mortgage portfolio in compliance with the requirement of the senior preferred stock purchase agreement that we reduce our mortgage portfolio 10% per year until it reaches $250 billion.

Fannie Mae Debt Funding Activity

Table 28 summarizes the activity in the debt of Fannie Mae for the periods indicated. This activity includes federal funds purchased and securities sold under agreements to repurchase but excludes the debt of consolidated trusts as well as intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 28: Activity in Debt of Fannie Mae

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010[(2)]	2011	2010[(2)]
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$ 140,051	$ 148,451	$ 228,252	$ 286,931
Weighted-average interest rate	0.12%	0.29%	0.13%	0.26%
Long-term:				
Amount	$ 29,687	$ 100,890	$ 81,424	$ 202,854
Weighted-average interest rate	2.38%	2.39%	2.22%	2.34%
Total issued:				
Amount	$ 169,738	$ 249,341	$ 309,676	$ 489,785
Weighted-average interest rate	0.51%	1.12%	0.68%	1.11%
Paid off during the period: (1)				
Short-term:				
Amount	$ 125,171	$ 100,141	$ 218,202	$ 231,007
Weighted-average interest rate	0.22%	0.21%	0.24%	0.22%
Long-term:				
Amount	$ 82,721	$ 88,439	$ 149,578	$ 183,602
Weighted-average interest rate	2.82%	3.33%	2.82%	3.32%
Total paid off:				
Amount	$ 207,892	$ 188,580	$ 367,780	$ 414,609
Weighted-average interest rate	1.26%	1.68%	1.29%	1.59%

(1) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases.

(2) For the three and six months ended June 30, 2010, we revised the weighted-average interest rate on short-term issued and total issued debt primarily to reflect weighting based on transaction level data.

Debt funding activity in the second quarter and first half of 2011 decreased compared with the second quarter and first half of 2010 primarily due to lower funding needs as a result of (1) a reduction in the size of our mortgage portfolio pursuant to the requirements of the senior preferred stock purchase agreement, and (2) a decrease in our purchases of delinquent loans from MBS trusts. We began to significantly increase our purchases of delinquent loans in 2010, and during the first half of 2010 we purchased the substantial majority of our delinquent loan population. Additionally, our debt funding needs were lower than would otherwise have been required as a result of funds we received from Treasury under the senior preferred stock purchase agreement.

We believe that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in the government s support could materially adversely affect our ability to refinance our debt as it becomes due, which could have a material adverse impact on our liquidity, financial condition and results of operations. On February 11, 2011, Treasury and HUD released a report to Congress on reforming America s housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. For more information on GSE reform, see Legislative and Regulatory Developments GSE Reform.

In addition, due to our reliance on the U.S. government s support, our access to debt funding or the cost of our debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government. See Credit Ratings below for a discussion of potential rating agency actions on our debt securities that likely would result from a downgrade in the U.S. government s debt ratings. A downgrade in our credit ratings likely would reduce demand for our debt securities and increase our borrowing costs.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations. See Risk Factors for a discussion of the risks we face relating to (1) the uncertain future of our company; (2) our reliance on the issuance of debt securities to obtain funds for our operations; and (3) our liquidity contingency plans.

Outstanding Debt

Total outstanding debt of Fannie Mae consists of federal funds purchased and securities sold under agreements to repurchase and short-term and long-term debt, excluding debt of consolidated trusts.

As of June 30, 2011, our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt increased to 22% from 19% as of December 31, 2010. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see Maturity Profile of Outstanding Debt of Fannie Mae. In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, decreased to 2.68% as of June 30, 2011 from 2.77% as of December 31, 2010.

Pursuant to the terms of the senior preferred stock purchase agreement, our outstanding debt limit is 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $972 billion in 2011. As of June 30, 2011, our aggregate indebtedness totaled $735.7 billion, which was $236.3 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 29 provides information as of June 30, 2011 and December 31, 2010 on our outstanding short-term and long-term debt based on its original contractual terms.

Table 29: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of					
	June 30, 2011			December 31, 2010		
	Maturities	Outstanding	Weighted-Average Interest Rate	Maturities	Outstanding	Weighted-Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase		$	%		$ 52	2.20%
Short-term debt:						
Fixed-rate:						
Discount notes		$ 161,689	0.16%		$ 151,500	0.32%
Foreign exchange discount notes		316	2.30		384	2.43
Total short-term debt of Fannie Mae[2]		162,005	0.17		151,884	0.32
Debt of consolidated trusts		5,193	0.17		5,359	0.23
Total short-term debt		$ 167,198	0.17%		$ 157,243	0.32%
Long-term debt:						
Senior fixed:						
Benchmark notes and bonds	2011 - 2030	$ 273,366	3.00%	2011 - 2030	$ 300,344	3.20%
Medium-term notes	2011 - 2021	164,043	2.15	2011 - 2020	199,266	2.13
Foreign exchange notes and bonds	2017 - 2028	1,223	5.98	2017 - 2028	1,177	6.21
Other[3]	2011 - 2040	45,568	5.63	2011 - 2040	44,893	5.64
Total senior fixed		484,200	2.97		545,680	3.02
Senior floating:						
Medium-term notes	2011 - 2016	70,546	0.25	2011 - 2015	72,039	0.31
Other[3]	2020 - 2037	368	5.84	2020 - 2037	386	4.92
Total senior floating		70,914	0.28		72,425	0.34
Subordinated fixed-rate:						
Qualifying subordinated[4]	2012 - 2014	4,893	5.08	2011 - 2014	7,392	5.47
Subordinated debentures	2019	2,787	9.91	2019	2,663	9.91
Total subordinated fixed-rate		7,680	6.83		10,055	6.65
		562,794	2.68		628,160	2.77

Total long-term debt of Fannie Mae[5]						
Debt of consolidated trusts[3]	2011 - 2051	2,444,853	4.54	2011 - 2051	2,411,597	4.59
Total long-term debt		$ 3,007,647	4.20%		$ 3,039,757	4.22%
Outstanding callable debt of Fannie Mae[6]		$ 170,133	2.74%		$ 219,804	2.53%

(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts include fair value gains and losses associated with debt that we elected to carry at fair value. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments and debt of consolidated trusts, totaled $734.5 billion and $792.6 billion as of June 30, 2011 and December 31, 2010, respectively.

(2) Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Reported amounts include a net discount and other cost basis adjustments of $67 million and $128 million as of June 30, 2011 and December 31, 2010, respectively.

(3) Includes a portion of structured debt instruments that is reported at fair value.

(4) Consists of subordinated debt with an interest deferral feature.

(5) Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year. Reported amounts include the current portion of long-term debt that is due within one year, which totaled $78.9 billion and $95.4 billion as of June 30, 2011 and December 31, 2010, respectively. Reported amounts also include unamortized discounts, premiums and other cost basis adjustments of $9.7 billion and $12.4 billion as of June 30,

2011 and December 31, 2010, respectively. The unpaid principal balance of long-term debt of Fannie Mae, which excludes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments and amounts related to debt of consolidated trusts, totaled $572.4 billion and $640.5 billion as of June 30, 2011 and December 31, 2010, respectively.

(6) Consists of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option at any time on or after a specified date. Includes the unpaid principal balance, and excludes unamortized discounts, premiums and other cost basis adjustments.

Maturity Profile of Outstanding Debt of Fannie Mae

Table 30 presents the maturity profile, as of June 30, 2011, of our outstanding debt maturing within one year, by month, including amounts we have announced for early redemption. Our outstanding debt maturing within one year, including the current portion of our long-term debt, increased as a percentage of our total outstanding debt, excluding debt of consolidated trusts and federal funds purchased and securities sold under agreements to repurchase, to 33% as of June 30, 2011, compared with 32% as of December 31, 2010. The weighted-average maturity of our outstanding debt that is maturing within one year was 119 days as of June 30, 2011, compared with 116 days as of December 31, 2010.

Table 30: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year(1)

(1) Includes unamortized discounts, premiums and other cost basis adjustments of $115 million as of June 30, 2011. Excludes debt of consolidated trusts maturing within one year of $9.0 billion as of June 30, 2011.

Table 31 presents the maturity profile, as of June 30, 2011, of the portion of our long-term debt that matures in more than one year, on a quarterly basis for one year and on an annual basis thereafter, excluding amounts we have announced for early redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 57 months as of June 30, 2011 compared with approximately 58 months as of December 31, 2010.

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Table 31: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[1]

(1) Includes unamortized discounts, premiums and other cost basis adjustments of $9.7 billion as of June 30, 2011. Excludes debt of consolidated trusts of $2.4 trillion as of June 30, 2011.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also intend to use funds we receive from Treasury under the senior preferred stock purchase agreement to pay our debt obligations and to pay dividends on the senior preferred stock.

Cash and Other Investments Portfolio

Table 32 provides information on the composition of our cash and other investments portfolio for the periods indicated.

Table 32: Cash and Other Investments Portfolio

	As of	
	June 30, 2011	**December 31, 2010**
	(Dollars in millions)	
Cash and cash equivalents	$ 14,274	$ 17,297
Federal funds sold and securities purchased under agreements to resell or similar arrangements	19,500	11,751
Non-mortgage-related securities:		
U.S. Treasury securities[1]	34,856	27,432
Asset-backed securities[2]	3,242	5,321
Total non-mortgage-related securities	38,098	32,753
Total cash and other investments	$ 71,872	$ 61,801

(1) Excludes $2.0 billion and $4.0 billion of U.S. Treasury securities which are a component of cash equivalents as of June 30, 2011 and December 31, 2010, respectively, as these securities had a maturity at the date of acquisition of three months or less.

(2) Includes securities primarily backed by credit cards loans, student loans and automobile loans.

Our cash and other investments portfolio increased from December 31, 2010 to June 30, 2011. We have more outstanding debt maturing in the third quarter of 2011 compared with our outstanding debt that matured in the first quarter of 2011, which resulted in an increase in the amount of cash and highly liquid non-mortgage securities we were required to hold pursuant to our liquidity risk management policy.

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Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, are highly dependent on our credit ratings from the major ratings organizations. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions.

While there have been no changes in our credit ratings from December 31, 2010 to August 2, 2011, on July 15, 2011, S&P placed our long-term and short-term debt ratings on CreditWatch with negative implications, following a similar action on the debt ratings of the U.S. government. A rating being placed on CreditWatch indicates a substantial likelihood of a ratings action by S&P within the next 90 days or is a response to events presenting significant uncertainty to the creditworthiness of an issuer. S&P noted that it placed our long-term and short-term debt on CreditWatch with negative implications due to our direct reliance on the U.S. government. On July 14, 2011, S&P stated that it may lower the long-term debt rating of the U.S. in the next three months if it concludes that Congress and the Administration have not achieved a credible solution to the rising U.S. government debt burden and are not likely to achieve one in the foreseeable future.

On July 13, 2011, Moody s placed both the U.S. government s rating and our long-term debt ratings on review for possible downgrade. Following the raising of the U.S. government s statutory debt limit on August 2, 2011, Moody s confirmed both the U.S. government s rating and our long-term debt ratings, and removed the designation that these ratings were under review for possible downgrade. However, Moody s revised the rating outlook for both the U.S. government s rating and our long-term debt ratings to negative. In assigning the negative outlook to the U.S. government s rating, Moody s indicated there would be a risk of a downgrade if (1) there is a weakening in fiscal discipline in the coming year; (2) further fiscal consolidation measures are not adopted in 2013; (3) the economic outlook deteriorates significantly; or (4) there is an appreciable rise in the U.S. government s funding costs over and above what is currently expected.

S&P, Moody s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government.

We currently cannot predict whether one or more of these ratings agencies will downgrade our debt ratings in the future, or how long our ratings will remain subject to review for a possible downgrade by S&P. See Risk Factors for a discussion of the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts and other borrowing arrangements.

Table 33 presents the credit ratings issued by the three major credit rating agencies as of August 2, 2011.

Table 33: Fannie Mae Credit Ratings

		As of August 2, 2011	
	S&P	**Moody s**	**Fitch**
Long-term senior debt	AAA	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Qualifying subordinated debt	A	Aa2	AA-
Preferred stock	C	Ca	C/RR6
Bank financial strength rating		E+	
Outlook	CreditWatch Negative	Negative	Stable

	(for Senior Debt) Negative (for Qualifying Subordinated Debt)	(for Long Term Senior Debt and Qualifying Subordinated Debt)	(for AAA rated Long Term Issuer Default Rating)

Cash Flows

Six Months Ended June 30, 2011. Cash and cash equivalents of $14.3 billion as of June 30, 2011 decreased by $3.0 billion from December 31, 2010. Net cash generated from investing activities totaled $236.2 billion, resulting primarily from proceeds received from repayments of loans held for investment. These net cash inflows were offset by net cash outflows used in operating activities of $2.1 billion and net cash used in financing activities of $237.1 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt as well as proceeds received from Treasury under the senior preferred stock purchase agreement.

Six Months Ended June 30, 2010. Cash and cash equivalents of $27.8 billion as of June 30, 2010 increased by $21.0 billion from December 31, 2009. Net cash generated from investing activities totaled $251.0 billion, resulting primarily from proceeds received from repayments of loans held for investment. These net cash inflows were partially offset by net cash outflows used in operating activities of $47.1 billion resulting primarily from purchases of trading securities. The net cash used in financing activities of $182.8 billion was primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt as well as proceeds received from Treasury under the senior preferred stock purchase agreement.

Capital Management

Regulatory Capital

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA during the conservatorship and FHFA monitors our capital levels. We report our minimum capital requirement, core capital and GAAP net worth in our periodic reports on Form 10-Q and Form 10-K, and FHFA also reports them on its website. FHFA is not reporting on our critical capital, risk-based capital or subordinated debt levels during the conservatorship. For information on our minimum capital requirements see Note 11, Regulatory Capital Requirements.

Senior Preferred Stock Purchase Agreement

As a result of the covenants under the senior preferred stock purchase agreement, Treasury s ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement.

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. We have received a total of $98.7 billion from Treasury pursuant to the senior preferred stock purchase agreement as of June 30, 2011. The Acting Director of FHFA will submit a request for $5.1 billion from Treasury under the senior preferred stock purchase agreement to eliminate our net worth deficit as of June 30, 2011, and request the receipt of those funds on or prior to September 30, 2011. Upon receipt of the requested funds, the aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, will equal $104.8 billion.

We continue to expect to have a net worth deficit in future periods and therefore will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement. Treasury s maximum funding commitment to us prior to a December 2009 amendment of the senior preferred stock purchase agreement was $200 billion. The amendment to the agreement stipulates that the cap on Treasury s funding commitment to us under the senior preferred stock purchase agreement will increase as necessary to accommodate any net worth deficits for calendar quarters in 2010 through 2012. For any net worth deficits as of December 31, 2012, Treasury s remaining funding commitment will be $124.8 billion ($200 billion less $75.2 billion cumulatively drawn through March 31, 2010) less the smaller of either (a) our positive net worth as of December 31, 2012 or (b) our cumulative draws from Treasury for the calendar quarters in 2010 through 2012.

Treasury has waived the quarterly commitment fee under the senior preferred stock purchase agreement for the first, second and third quarters of 2011 due to the continued fragility of the U.S. mortgage market and to Treasury s belief that imposing the commitment fee would not generate increased compensation for taxpayers. Treasury stated that it will reevaluate the situation during the next calendar quarter to determine whether to set the quarterly commitment fee for the fourth quarter of 2011.

Dividends

Holders of the senior preferred stock are entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. Treasury is the current holder of our senior preferred stock. As conservator and under our charter, FHFA has authority to declare and approve dividends on the senior preferred stock. If at any time we do not pay cash dividends on the senior preferred stock when they are due, then immediately following the period we did not pay dividends and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year. Dividends on the senior preferred stock that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock.

Our second quarter dividend of $2.3 billion was declared by the conservator and paid by us on June 30, 2011. Upon receipt of additional funds from Treasury in September 2011, which FHFA will request on our behalf, the annualized dividend on the senior preferred stock will be $10.5 billion based on the 10% dividend rate. The level of dividends on the senior preferred stock will increase in future periods if, as we expect, the conservator requests additional funds on our behalf from Treasury under the senior preferred stock purchase agreement.

OFF-BALANCE SHEET ARRANGEMENTS

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $57.4 billion as of June 30, 2011 and $56.9 billion as of December 31, 2010.

Under the temporary credit and liquidity facilities program in which we provide assistance to housing finance agencies (HFAs) and in which Treasury has purchased participation interests, our outstanding commitments totaled $3.5 billion as of June 30, 2011 and $3.7 billion as of December 31, 2010. Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $17.6 billion as of June 30, 2011 and $17.8 billion as of December 31, 2010. As of both June 30, 2011 and December 31, 2010, there were no liquidity guarantee advances outstanding. For a description of these programs, see MD&A Off-Balance Sheet Arrangements Treasury Housing Finance Agency Initiative in our 2010 Form 10-K.

RISK MANAGEMENT

Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We seek to manage these risks and mitigate our losses by using an established risk management framework. Our risk management framework is intended to provide the basis for the principles that govern our risk management activities. In addition to these financial risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in Legislative and Regulatory Developments GSE Reform and Risk Factors. We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including model, legal and reputational risks that may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the financial risks we face and how we manage credit risk, market risk and operational risk, see MD&A Risk Management in our 2010 Form 10-K and Risk Factors in our 2010 Form 10-K and in this report.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. Continuing adverse market conditions have resulted in significant exposure to mortgage and institutional counterparty credit risk. The metrics used to measure credit risk are generated using internal models. Our internal models require numerous assumptions and there are inherent limitations in any methodology used to estimate macroeconomic factors such as home prices, unemployment and interest rates and their impact on borrower behavior. When market conditions change rapidly and dramatically, the assumptions of our models may no longer accurately capture or reflect the changing conditions. On a continuous basis, management makes judgments about the appropriateness of the risk assessments indicated by the models. See Risk Factors in our 2010 Form 10-K for a discussion of the risks associated with our use of models.

Mortgage Credit Risk Management

Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our portfolio for which we do not provide a guaranty.

Mortgage Credit Book of Business

Table 34 displays the composition of our entire mortgage credit book of business as of the periods indicated. Our total single-family mortgage credit book of business accounted for 93% of our total mortgage credit book of business as of both June 30, 2011 and December 31, 2010.

Table 34: Composition of Mortgage Credit Book of Business[1]

	As of June 30, 2011			As of December 31, 2010		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[2]	$ 2,855,481	$ 174,602	$ 3,030,083	$ 2,846,462	$ 172,407	$ 3,018,869
Other credit guarantees[3]	20,025	16,853	36,878	18,625	16,994	35,619
Guaranty book of business	$ 2,875,506	$ 191,455	$ 3,066,961	$ 2,865,087	$ 189,401	$ 3,054,488

Agency mortgage-related securities[4]	16,046	33	16,079	18,797	24	18,821
Other mortgage-related securities	45,989	33,139	79,128	48,678	34,205	82,883
Mortgage credit book of business	$ 2,937,541	$ 224,627	$ 3,162,168	$ 2,932,562	$ 223,630	$ 3,156,192
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[5]	$ 2,801,371	$ 188,868	$ 2,990,239	$ 2,790,590	$ 186,712	$ 2,977,302
Government Guaranty Book of Business[6]	$ 74,135	$ 2,587	$ 76,722	$ 74,497	$ 2,689	$ 77,186

(1) Based on unpaid principal balance. Prior period amounts have been reclassified to conform to the current period presentation.

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

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

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

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

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

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of both our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of June 30, 2011 and December 31, 2010. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See Risk Factors in our 2010 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies and underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These strategies, which we discuss below, may increase our expenses and may not be effective in reducing our credit-related expenses or credit losses. We provide information on our credit-related expenses and credit losses in Consolidated Results of Operations Credit-Related Expenses.

The credit risk profile of our single-family mortgage credit book of business is influenced by, among other things, the credit profile of the borrower, features of the loan, loan product type, the type of property securing the loan and the housing market and general economy. We focus more on loans that we believe pose a higher risk of default, which typically have been loans associated with higher mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, such as Alt-A loans. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment.

Because we believe we have limited credit exposure on our government loans, the single-family credit statistics we focus on and report in the sections below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business.

We provide information on the performance of non-Fannie Mae mortgage-related securities held in our portfolio, including the impairment that we have recognized on these securities, in Consolidated Balance Sheet

Analysis Investments in Mortgage-Related Securities Investments in Private-Label Mortgage-Related Securities.

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

In evaluating our single-family mortgage credit risk, we closely monitor changes in housing and economic conditions and the impact of those changes on the credit risk profile of our single-family mortgage credit book of business. We regularly review and provide updates to our underwriting standards and eligibility guidelines that take into consideration changing market conditions.

Our mortgage servicers are the primary point of contact for borrowers and perform a vital role in our efforts to reduce defaults and pursue foreclosure alternatives. In the second quarter of 2011, we issued new standards for mortgage servicers regarding the management of delinquent loans, default prevention and foreclosure time frames under FHFA s directive to align GSE policies for servicing delinquent mortgages. The new standards, reinforced by new incentives and compensatory fees, require servicers to take a more consistent approach for homeowner communications, loan modifications and other workouts, and, when necessary, foreclosures. The new standards are designed to: (1) achieve effective contact with the borrower, including creating a uniform standard for communicating with the homeowner, determining reasons for delinquency and assessing their ability to pay, and educating homeowners on the availability of foreclosure prevention options; (2) set clear timelines and establish clear and consistent policies in the foreclosure process; and (3) provide incentives to servicers to complete loan workouts earlier in the homeowner s delinquency and charge servicers compensatory fees when they fail to have the proper contact with the borrower. We believe these standards will bring greater consistency, clarity, fairness and efficiency to the process, help improve servicer performance, and hold servicers accountable for their effectiveness in assisting homeowners.

In addition to these new standards, we have taken other steps to improve the performance of our servicers including: (1) updating our Servicing Guide, which should improve our servicers ability to understand and comply with our requirements and allow them to complete workouts earlier in the delinquency process, thereby avoiding foreclosure; and (2) implementing a servicer performance management system designed to measure and evaluate mortgage servicers performance in helping homeowners avoid foreclosure.

For discussion of our acquisition policy, underwriting standards, and use of mortgage insurance as a form of credit enhancement, see MD&A Risk Management Credit Risk Management Single-Family Mortgage Credit Risk Management in our 2010 Form 10-K. For a discussion of our aggregate mortgage insurance coverage as of June 30, 2011 and December 31, 2010, see Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management Mortgage Insurers.

Single-Family Portfolio Diversification and Monitoring

Diversification within our single-family mortgage credit book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, in conjunction with housing market and economic conditions, to determine if our pricing and our eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee. In some cases we may decide to significantly reduce our participation in riskier loan product categories. We also review the payment performance of loans in order to help identify potential problem loans early in the delinquency cycle and to guide the development of our loss mitigation strategies.

Table 35 presents our single-family conventional business volumes and our single-family conventional guaranty book of business for the periods indicated, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

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Table 35: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4]	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		As of	
	2011	2010	2011	2010	June 30, 2011	December 31, 2010
	(Dollars in millions)					
Original LTV ratio:[5]						
<= 60%	28%	27%	29%	29%	24%	24%
60.01% to 70%	14	15	15	15	16	16
70.01% to 80%	37	40	37	38	41	41
80.01% to 90%[6]	10	10	9	10	9	9
90.01% to 100%[6]	8	6	7	6	9	9
Greater than 100%[6]	3	2	3	2	1	1
Total	100%	100%	100%	100%	100%	100%
Weighted average	71%	70%	69%	69%	71%	71%
Average loan amount	$ 194,598	$ 216,042	$ 206,313	$ 220,411	$ 156,294	$ 155,531
Estimated mark-to-market LTV ratio:[7]						
<= 60%					27%	28%
60.01% to 70%						