Customers Bancorp, Inc.
Form DEF 14A
March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. _____)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under Rule 14a-12

Customers Bancorp, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

CUSTOMERS BANCORP

1015 Penn Avenue
Wyomissing, Pennsylvania 19610
(610) 933-2000

March 12, 2015

Dear Shareholders:

We are pleased to invite you to attend the 2015 Annual Meeting of Shareholders of Customers Bancorp, Inc. (the "Company") to be held on Thursday, April 23, 2015 beginning at 9:30 a.m. at The Harvard Club at 35 West 44th Street, New York, NY 10036. Further information about the meeting and the various matters on which the shareholders will vote is included in the Notice of Meeting and Proxy Statement which follow this letter.

2014 was another record year for the Customers Bancorp, Inc. and we achieved numerous milestones. We reported record earnings of $43.2 million, or $1.55 per fully diluted share. Net income in 2014 was up 32% over 2013 net income. Revenues grew by 40%. Loans outstanding increased 79% during the year to $5.7 billion, and deposits increased 53% to $4.5 billion. During the year we implemented our single-point-of-contact customer service model, greatly enhanced our mobile banking application, and raised $110 million of subordinated debt and $25 million of senior debt to support our growth. We are looking forward to 2015 and further developing our Company into an exceptional bank.

We hope you will be able to attend the Annual Meeting. Even if you are planning to attend the meeting in person, we encourage you to vote by internet, smart phone, telephone, or complete, sign and return a proxy card prior to the meeting. This will ensure that your shares are represented at the meeting. The proxy statement explains more about the proxy voting and contains additional information about the business to be conducted at the meeting. Please read the proxy carefully.

Every shareholder vote is important. To ensure your vote is counted at the Annual Meeting, please vote as promptly as possible.

Thank you for your investment in, and ongoing support, of our Company. We appreciate your confidence and will continue to work to build long term shareholder value.

Sincerely,

Jay S. Sidhu

Chairman and Chief Executive Officer

CUSTOMERS BANCORP

1015 Penn Avenue
Wyomissing, Pennsylvania 19610
(610) 933-2000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

An Annual Meeting of the shareholders of Customers Bancorp, Inc. (the "Company") will be held on April 23, 2015, at The Harvard Club, 35 West 44th Street, New York, NY 10036 at 9:30 a.m. to vote on the following proposals:

1. To elect two Class I directors of the Company to serve a three-year term;
2. To ratify the appointment of BDO USA, LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2015; and
3. To vote on an advisory (non-binding) resolution to approve the compensation of the named executive officers.

The Board of Directors has set the Record Date for the Annual Meeting as March 2, 2015 (the "Record Date"). Only holders of record of the Company's Voting Common Stock at the close of business on that date can vote at the meeting. As long as a quorum is present or represented at the Annual Meeting, the affirmative vote of a majority of the Company's Voting Common Stock present, in person or by proxy, is required to pass Proposals 2 and 3, and the candidates receiving the highest number of votes shall be elected under Proposal 1. As of the Record Date, there were approximately 26,810,133 shares of the Company's Voting Common Stock outstanding.

The directors of the Company unanimously believe that Proposals 1, 2 and 3 are in the best interests of the Company and its shareholders, and urge shareholders to vote "FOR" the election of each of the nominated directors in Proposal 1, and "FOR" Proposals 2 and 3.

You may review the proxy statement and the Company's annual report to security holders, or you may vote your shares at www.envisionreports.com/CUBI.

By Order of the Board of Directors

Glenn A. Yeager, Corporate Secretary

Mailed on or about March 13, 2015

YOUR VOTE IS IMPORTANT, REGARDLESS OF HOW MANY SHARES YOU OWN. WHETHER YOU PLAN TO ATTEND THE MEETING OR NOT, PLEASE FOLLOW THE INSTRUCTIONS ON THE SHAREHOLDER MEETING NOTICE TO REVIEW THE PROXY AND ANNUAL REPORT AND FOR INTERNET AND SMART PHONE VOTING, OR TO REQUEST PHYSICAL DELIVERY OF THE PROXY, ANNUAL REPORT TO SECURITY HOLDERS AND PROXY CARD WITH A PRE-ADDRESSED ENVELOPE. PLEASE RETURN THE PROXY CARD, IF REQUESTED, PROMPTLY IN THE ENCLOSED ENVELOPE PROVIDED WITH ANNUAL MEETING MATERIALS, OR FOLLOW THE INSTRUCTIONS ON THE PROXY CARD FOR INTERNET OR TELEHPONE VOTING. IF YOU ATTEND THE MEETING AND PREFER TO VOTE IN PERSON, YOU MAY DO SO, EVEN IF YOU TURN IN YOUR PROXY AT THIS TIME. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO ITS USE FOR ANY PURPOSE BY GIVING WRITTEN NOTICE OF REVOCATION TO OUR CORPORATE SECRETARY AT

OUR WYOMISSING OFFICE AT 1015 PENN AVE. SUITE 103, WYOMISSING, PENNSYLVANIA 19610. YOU MAY ALSO APPEAR IN PERSON AT THE ANNUAL MEETING AND ASK TO WITHDRAW YOUR PROXY PRIOR TO ITS USE FOR ANY PURPOSE AND THEN VOTE IN PERSON. A LATER DATED PROXY REVOKES AN EARLIER DATED PROXY.

TABLE OF CONTENTS

INFORMATION REGARDING THE ANNUAL MEETING	1
Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on April 23, 2015	1
COMMONLY USED TERMS	1
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING	1
Why am I receiving these proxy materials?	1
Who is entitled to vote at the meeting?	2
What am I being asked to vote on?	2
How many votes do I have?	2
What is a quorum?	2
What vote is required?	2
How do I vote?	3
What if I return a proxy card but do not make specific choices?	3
What if I receive more than one proxy card or voting instruction form?	3
Who will count the votes and how will my votes be counted?	4
Can I change my vote after I have sent you my proxy?	4
How may I communicate with the Board of Directors?	4
Who will bear the cost of soliciting proxies?	4
How can I find out the results of the voting at the meeting?	4
What is the recommendation of the Board of Directors?	4
Whom should I call if I have questions about the meeting?	5
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	5
PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING	6
PROPOSAL 1 ELECTION OF TWO CLASS I DIRECTORS OF THE COMPANY	6
PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	6
Audit and Other Fees Paid to Independent Registered Public Accounting Firm	7
Pre-approval of Audit and Non-Audit Services	8
AUDIT COMMITTEE REPORT	9
PROPOSAL 3 A NON-BINDING ADVISORY NOTE ON EXECUTIVE COMPENSATION	10
MANAGEMENT	11
OUR BOARD OF DIRECTORS AND MANAGEMENT	11
BOARD GOVERNANCE	13
Board Leadership Structure	13
Risk Oversight	14
Director Independence	14

Table of Contents

Information about Board Committees	15
Committee Charters	15
Meeting Attendance	15
Director Nominations	15
Nominating and Corporate Governance Committee	16
Audit Committee	17
Risk Committee	17
Compensation Committee	18
The Committee duties include:	18
Consultants, Legal Counsel and Other Advisers:	19
Compensation Consultant	19
Compensation Committee Interlocks and Insider Participation	19
Risk Assessment of Compensation Policies and Practices	20
Code of Ethics and Business Conduct	20
EXECUTIVE COMPENSATION	20
COMPENSATION DISCUSSION AND ANALYSIS	20
Compensation Objectives and the Focus of Compensation Rewards	20
Peer Group Companies	21
Customers Bancorp, Inc. Compensation Philosophy	21
Philosophy built on six core compensation principles	21
Role of the Compensation Committee	22
Specific Elements of the Compensation Program	22
Salary	22
Bonuses	22
Long-Term Equity Incentive Compensation	23
Perquisites, Post Retirement and Other Elements of Compensation for Executive Officers	23
Employment and Other Agreements	23
Employee Benefits	23
401(k) Retirement Savings and Profit Sharing Plan	23
Insurance	24
Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer	24
Consideration of Risk	24
Risk Management Checks and Balances	24
Compliance with Section 409A of the Internal Revenue Code	25
Compensation Committee Report	25
SUMMARY COMPENSATION TABLE [(1)]	26
GRANTS OF PLAN-BASED AWARDS [(1)]	28
Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan	28
Amended and Restated 2010 Stock Option Plan	28

Table of Contents

Bonus Recognition and Retention Program	29
2012 Restricted Stock Rewards Program	30
Officer Employment Agreements	30
OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END [1]	32
NONQUALIFIED DEFERRED COMPENSATION	34
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL	34
DIRECTOR COMPENSATION	37
DIRECTOR COMPENSATION TABLE [1] [2]	37
Section 16(a) Beneficial Ownership Reporting Compliance	37
TRANSACTIONS WITH RELATED PARTIES	37
SHAREHOLDER PROPOSALS	39
Shareholder Proposals for Inclusion in the 2016 Proxy Statement	39
Director Nominations and Other Shareholder Proposals for Presentation at the 2016 Annual Meeting	39
OTHER BUSINESS	39
ANNUAL REPORT	40

Table of Contents

PROXY STATEMENT

Customers Bancorp, Inc.

1015 Penn Avenue

Wyomissing, Pennsylvania 19610

INFORMATION REGARDING THE ANNUAL MEETING

This Proxy Statement is being furnished to shareholders of Customers Bancorp, Inc. in connection with the solicitation of your proxy to be used at the Annual Meeting of Shareholders to be held on April 23, 2015. At the meeting, you will be asked to consider and vote to elect two Class I directors of Customers Bancorp, Inc. to serve a three-year term, to ratify the appointment of BDO USA, LLP as the independent registered public accounting firm of Customers Bancorp, Inc. for the fiscal year ending December 31, 2015, and the non-binding vote on the compensation arrangement for named executives.

Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting of Shareholders to be Held on April 23, 2015

This proxy statement and the Corporation's annual report to security holders are available at www.envisionreports.com/CUBI. This website also enables security holders to vote their proxy.

This year, we are using the "Notice and Access" method of providing proxy materials to you via the Internet instead of mailing printed copies. We believe that this process will provide you with a convenient and quick way to access the proxy materials, including our proxy statement and 2014 annual report to shareholders, and authorize a proxy to vote your shares, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials.

Most shareholders will not receive paper copies of the proxy materials unless they request them. Instead, the Important Notice Regarding Availability of Proxy Materials, which we refer to as the Notice and Access card, which has been mailed to our shareholders, provides instructions regarding how you may access and review all of the proxy materials on the Internet. The Notice and Access card also instructs you how to submit your proxy via the Internet or smart phone. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials printed on the Notice and Access card.

If your shares are held by a brokerage house or other custodian, nominee or fiduciary in "street name," you will receive a Notice and Access card intended for their beneficial holders with instructions for providing to such intermediary voting instructions for your shares. You may also request paper copies of the proxy materials by following the instructions on the intermediary Notice and Access card. If you receive paper copies, many intermediaries provide instructions for their beneficial holders to provide voting instructions via the Internet or by telephone.

If your shares are held in "street name" and you would like to vote your shares in person at the Annual Meeting, you must contact your broker, custodian, nominee or fiduciary to obtain a legal proxy form from the record holder of your shares and present it to the inspector of election with your ballot.

COMMONLY USED TERMS

For purposes of this Proxy Statement, any references to the “**Company**,” “**we**,” “**us**,” or “**our**” refer to **Customers Bancorp, Inc**.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these proxy materials?

The Company has sent you a Notice and Access mailing regarding the availability of proxy materials for the shareholder meeting because the Board of Directors of the Company is soliciting your proxy to vote at the Annual Meeting. You are invited to attend the meeting to vote on the proposals described in this Proxy Statement. However, you do not need to attend the meeting to vote your shares. Instead, you may follow the instructions included in the Notice and Access mailing and vote using the internet or smartphone, or you may request paper copies of the proxy, annual report, and proxy card and complete, sign, and return the proxy card or follow the instructions on the proxy card to vote using the internet or telephone.

The Company has separately mailed the Notice and a proxy card to all shareholders of record entitled to vote at the meeting and is making the Proxy Statement and 2014 Annual Report available to you electronically.

Table of Contents

Who is entitled to vote at the meeting?

To be able to vote, you must have been a beneficial owner or record holder of the Company's Voting Common Stock on March 2, 2015, the Record Date on which the Board of Directors determined shareholders entitled to notice of, and to vote at, the meeting (the "Record Date").

Shareholder of Record: Shares Registered in Your Name. If, at the close of business on the Record Date, your shares of Voting Common Stock were registered directly in your name, then you are a shareholder of record. As a shareholder of record you may vote in person at the meeting or by proxy. Whether or not you plan to attend the meeting, we urge you to vote using the internet or smart phone, or if you request a paper copy of the materials, complete and return the accompanying proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank, or Other Agent. If, at the close of business on the Record Date, your shares were not issued directly in your name, but rather were held in an account at a brokerage firm, bank, or by another agent, you are the beneficial owner of shares held in "street name" and the notice of proxy materials is being forwarded to you by your broker, bank, or other agent. The broker, bank, or other agent holding your shares in that account is considered to be the shareholder of record for purposes of voting at the meeting.

As a beneficial owner, you have the right to direct your broker, bank, or other agent on how to vote the shares of Voting Common Stock in your account. You are also invited to attend the meeting. However, since you are not the shareholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy issued in your name from your broker, bank or other agent.

What am I being asked to vote on?

There are three matters scheduled for a vote at the meeting:

1. To elect two Class I directors of the Company to serve a three-year term;
2. To ratify the appointment of BDO USA, LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2015; and
3. To vote on an advisory (non-binding) resolution to approve the compensation of the named executive officers.

The Company's Board of Directors recommends a vote "FOR" each of the Board of Director's nominees identified in this Proxy Statement and "FOR" Proposals 2 and 3 above.

How many votes do I have?

Each holder of the Company's Voting Common Stock is entitled to one vote per share held.

What is a quorum?

For a proposal to be considered at the meeting, a quorum must be present. The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on the particular matter will constitute a quorum for purposes of considering such matter. The shareholders present, in person or by proxy, at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Abstentions and "broker non-votes" (that is, shares held by a broker or nominee that are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary voting power) will be counted for the purpose of determining whether a quorum is present.

Your shares will be counted toward the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank, or other agent) or if you are present at the meeting. If there is no quorum, a majority of all votes cast at the meeting may adjourn the meeting to another date.

What vote is required?

For Proposal 1, if a quorum is present, the candidates receiving the highest number of votes shall be elected. Cumulative voting is not permitted. “Withheld” votes and broker non-votes will not count in determining the number of votes required to elect a director, and they will not count in favor of or against a director’s election.

Table of Contents

For Proposals 2 and 3, if a quorum is present, the affirmative vote of a majority of the stock having voting powers, present, in person or by proxy, is required to approve such proposals. Abstentions and broker non-votes are not deemed to constitute "votes cast" and, therefore, do not count either for or against approval of the proposals.

For beneficial owners, the rules that guide how most brokers vote your stock have changed over the last several years. The rules provide that brokerage firms or other nominees may not vote your shares with respect to matters that are not "routine" under the rules. The rules now provide that the election of directors is not a "routine" matter. The ratification and appointment of our independent registered public accounting firm for 2015 is the only current proposal that is considered a "routine" matter under the rules and, therefore, brokerage firms and other nominees have the authority under the rules to vote your unvoted shares with respect to that matter if you have not furnished voting instructions within a specified period of time prior to the meeting.

How do I vote?

For any matter to be voted on except the election of directors, you may vote **"FOR"** or "Against" or abstain from voting. For the election of directors, you may vote **"FOR"** the director nominees or your authority may be "Withheld" for one or more of the nominees. The procedures for voting are as follows:

Shareholder of Record: Shares Registered in Your Name. If you are a shareholder of record, you may vote in person at the meeting. Alternatively, you may vote by proxy by following the instructions on the Notice and Access sent to you using the internet or smart phone, or if you request paper copies of the proxy, annual report and proxy card, you may vote using the accompanying proxy card or by internet or telephone. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy. In such case, notify the Corporate Secretary before the meeting begins of your presence at the meeting and your intention to revoke your previously voted proxy.

To vote in person, come to the meeting and we will give you a ballot when you arrive.

If you use the Access and Notice, to vote by internet or smart phone, follow the instructions of the Notice and Access card mailed to you. If you order paper copies of the proxy, annual report and proxy card, to vote by mail, simply complete, sign, and date the proxy card separately mailed to you and return it promptly in the envelope provided. To vote by internet or telephone, follow the instructions on the proxy card for internet or telephone voting.

If you order paper copies of the proxy, annual report and proxy card, to vote by mail simply complete, sign and date the proxy card mailed to you and return it promptly in the envelope provided. To vote by internet or telephone, follow the instructions on the proxy card.

If you return your signed proxy card to us before the meeting, or you vote by internet, smart phone or telephone, we will vote your shares as you direct unless you revoke your proxy.

Beneficial Owner: Shares Registered in the Name of Broker, Bank, or Other Agent. If your shares of the Company's Voting Common Stock are held in "street name," that is, your shares are held in the name of a brokerage firm, bank, or other nominee, in lieu of a Notice and Access form you should receive a voting instruction form from that institution by mail. Complete and mail the voting instruction card as instructed to ensure that your vote is counted.

If your shares are held in street name and you wish to vote in person at the meeting, you must obtain a proxy issued in your name from the record holder (that is, your brokerage firm, bank or other nominee) and bring it with you to the meeting. We recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the meeting.

What if I return a proxy card but do not make specific choices?

If you return a signed proxy card without marking any voting selections, your shares will be voted "**FOR**" Proposals 2 and 3, and "**FOR**" each director nominated by the Board of Directors. If any other matter is properly presented at the meeting, then one of the proxies named on the proxy card will vote your shares using his or her best judgment.

What if I receive more than one proxy card or voting instruction form?

If you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please be sure to complete, sign, date, and return **each** proxy card or voting instruction form to ensure that all of your shares will be voted. Only shares relating to proxy cards and voting instruction forms that have been signed, dated, and timely returned will be counted in the quorum and voted.

Table of Contents

Who will count the votes and how will my votes be counted?

Votes will be counted by the judge of election appointed for the Annual Meeting. The judge of election will count "**FOR**" and "**AGAINST**" votes for each of proposal 2 and 3, and "**FOR**" and "**WITHHELD**" votes, as applicable, for the director nominees named on your proxy card.

Can I change my vote after I have sent you my proxy?

Yes. You can revoke your proxy at any time before the applicable vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy with a later date;
- You may send a written notice that you are revoking your proxy to our Corporate Secretary at our principal executive offices: 1015 Penn Ave. Suite 103, Wyomissing, Pennsylvania 19610; or
- You may attend the meeting and vote in person (however, simply attending the meeting will not, by itself, revoke your proxy; you must notify the Corporate Secretary before the meeting begins of your presence at the meeting and your intention to revoke your previously voted proxy).

If your shares are held by a broker, bank, or other agent, you should follow the instructions provided by them.

How may I communicate with the Board of Directors?

Please address any communications to the Company's Board of Directors, or any individual director, in writing to the Company's Corporate Secretary at 1015 Penn Ave., Wyomissing, Pennsylvania 19610. The Corporate Secretary will relay all shareholder communications to the Board of Directors or any individual director to whom communications are directed.

Who will bear the cost of soliciting proxies?

The Company will bear the entire cost of the solicitation of proxies for the meeting, including the preparation, assembly, printing, and distribution of this Proxy Statement, the Notice and Access mailing, the proxy card and any additional solicitation materials furnished to shareholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation materials to the beneficial owners. The Company may reimburse such persons for their reasonable expenses in forwarding solicitation materials to beneficial owners. The Company has engaged Georgeson, Inc., a professional proxy solicitation firm ("Georgeson"), to assist in the solicitation of proxies for the 2015 Annual Meeting of Shareholders. Georgeson will be paid a fee of approximately five thousand dollars ($5,000). The solicitation of proxies may be supplemented by solicitation by personal contact, telephone, facsimile, email, or any other means by the Company's directors, officers, or employees. No additional compensation will be paid to those individuals for any such services.

How can I find out the results of the voting at the meeting?

The Company will provide the voting results in a Form 8-K to be filed with the Securities and Exchange Commission no later than the fourth business day after the Annual Meeting.

What is the recommendation of the Board of Directors?

The Company's Board of Directors recommends a vote:

FOR the proposal to elect two Class I directors of the Company to serve a three-year term;

FOR to ratify the appointment of BDO USA, LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2015; and

FOR the advisory (non-binding) resolution to approve the compensation of the named executive officers.

With respect to any other matter that properly comes before the meeting, the proxies will vote in accordance with their best judgment. The judge of election for the meeting will be a representative of our transfer agent, Computershare, Inc., or, in his or her absence, one or more other individuals to be appointed in accordance with the Company's bylaws.

Unless you give other instructions on your proxy card, the persons named as proxies on your signed proxy card will vote in accordance with the recommendations of the Company's Board of Directors with respect to each of the proposals and the election of director, and in their discretion with respect to any other matter properly brought before the Annual Meeting.

Table of Contents

Whom should I call if I have questions about the meeting?

You should contact Glenn A. Yeager, our Corporate Secretary, at (484) 359-7136 for questions about the meeting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of February 18, 2015 with respect to the beneficial ownership of each director, each beneficial owner known to us of more than five percent (5%) of our outstanding Voting Common Stock, each named executive officer, and all directors and named executive officers as a group.

Name and Address **of Beneficial Owner** [(2)]	Voting Common Stock (1) (2) (3)	Percent of Class of Voting Common **Stock** [(2)]
Directors and Officers		
Bhanu Choudhrie [(4)]	954,469	3.71%
Steven J. Zuckerman [(5)]	19,565	*
T. Lawrence Way	233,768	*
John R. Miller	39,697	*
Daniel K. Rothermel	43,242	*
Jay S. Sidhu	1,154,042	4.36%
Richard A. Ehst	75,876	*
Robert E. Wahlman	33,000	*
Glenn A. Hedde	79,024	*
Steven J. Issa	0	*
All directors and named executive officers as a group (10 persons)	2,632,683	9.89%

* Less than 1%

(1) Based on information furnished by the respective individual and our share records. Shares are deemed to be beneficially owned by a person if he or she directly or indirectly has or shares the power to vote or dispose of the shares, whether or not he or she has any economic interest in the shares. Unless otherwise indicated, the named beneficial owner has sole voting and dispositive power with respect to the shares.

(2) Beneficial ownership for each listed person as of February 18, 2015 includes shares issuable pursuant to warrants or options to purchase stock held by such person which are exercisable within 60 days after February 18, 2015. Shares subject to warrants or options exercisable within 60 days of February 18, 2015 are deemed outstanding for purposes of computing the percentage of class of Voting Common Stock attributable to the person or group holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage of any other person or group. Unless otherwise indicated, the address for each beneficial owner is c/o Customers Bancorp, Inc., 1015 Penn Ave., Wyomissing, Pennsylvania 19610.

(3) Includes shares of Voting Common Stock issuable upon the exercise of warrants in the following amounts: Mr. Choudhrie – 35,615; Mr. Way – 2,497; Mr. Zuckerman – 6,815; and Mr. Sidhu – 305,931. Includes shares of our Voting Common Stock issuable upon the exercise of stock options in the following amounts: Mr. Sidhu – 493,629; Mr. Hedde – 3,667; and Mr. Ehst – 74,044.

(4) Mr. Choudhrie has an indirect beneficial ownership interest in 911,149 of these securities through his company, Lewisburg LLC.

(5) Mr. Zuckerman irrevocably transferred the current equivalent of 218,254 shares of Customers Bancorp, Inc. common stock to Sageworth Trust Company, Trustee of the Victoria H. Zuckerman 2006 MG Trust dated 8/21/2006 on May 8, 2012.

Table of Contents

PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING

PROPOSAL 1
ELECTION OF TWO CLASS I DIRECTORS OF THE COMPANY

One of the purposes of the Annual Meeting is the election of two Class I directors to the Company's Board of Directors. The following directors have been nominated by our Board for election as director to serve as follows:

Class I — Term to Expire in 2018:

1. Jay S. Sidhu; and
2. Bhanu Choudhrie.

Jay S. Sidhu, Chairman and Chief Executive Officer – Age 63

Mr. Sidhu joined Customers Bank as Chairman and Chief Executive Officer in the second quarter of 2009. Before joining Customers Bank, Mr. Sidhu was the Chief Executive Officer of Sovereign Bank from 1989 and its Chairman from 2002 until his retirement on December 31, 2006. Mr. Sidhu was also the Chairman and Chief Executive Officer of SIDHU Advisors, LLC, a consulting firm. Mr. Sidhu received Financial World's CEO of the year award in 2007, 2008 and 2009, and was named Turnaround Entrepreneur of the Year. He has received many other awards and honors, including a Hero of Liberty Award from the National Liberty Museum. Mr. Sidhu also serves as a Director of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, with main offices in Jacksonville, Florida. Mr. Sidhu has also served on the boards of numerous businesses and not-for-profits, including as a member of the board of Grupo Santander. He obtained an MBA from Wilkes University and is a graduate of Harvard Business School's Leadership Course. Mr. Sidhu also helped establish the Jay Sidhu School of Business and Leadership at Wilkes University.

Mr. Sidhu's demonstration of day-to-day leadership, combined with his extensive banking sector experience, provide the board with intimate knowledge of Customers Bank's direction and strategic opportunities.

Bhanu Choudhrie, Director – Age 36

Mr. Choudhrie has served as a director of Customers Bank since July 2009, and was an original member of Customers Bancorp's board. Mr. Choudhrie is a private equity investor with investments in the United States, United Kingdom, Europe and Asia. He has been Executive Director of C&C Alpha Group Limited, a London based family private equity group, since November 2006, and was the Executive Director of C&C Business Solutions Ltd. from June 2003 to November 2006. C&C Alpha Group was founded in 2002. The company, with global headquarters in London, has established offices in several countries. Its team comprises entrepreneurs, financial analysts, project developers, project managers and consultants. Additionally, Mr. Choudhrie is a director of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, with main offices in Jacksonville, Florida. Mr. Choudhrie also currently serves as a Trustee of a United Kingdom registered charity – "Path to Success."

As an executive of a UK-based firm with international private equity interests, Mr. Choudhrie provides the board with a strategic management and global market perspective.

The persons named as proxies have advised us that, unless otherwise instructed, they intend at the Annual Meeting to vote the shares covered by validly executed proxies "**FOR**" the election of the nominees named above. The proxies cannot be voted for a greater number of persons than the number of nominees named above. The Board knows of no reason why the nominees will be unavailable or unable to serve as a director. We expect the nominees to be willing and able to serve as directors.

The two candidates receiving the highest number of votes shall be elected. Valid proxies solicited by the board will be voted "**FOR**" the nominees listed above, unless the shareholders specify a contrary choice in their proxies.

THE BOARD RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES LISTED

IN PROPOSAL 1 TO ELECT TWO CLASS I DIRECTORS OF THE COMPANY.

PROPOSAL 2
RATIFICATION OF APPOINTMENT
OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee of the Company's Board of Directors (the "Audit Committee") has selected BDO USA, LLP ("BDO") to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015 and has further directed

6

Table of Contents
that management submit the selection of independent auditor for ratification by the shareholders at the Annual Meeting. BDO also served as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2014 and 2013. Baker Tilly Virchow Krause, LLP ("Baker Tilly") served as the Company's independent registered public accounting firm in 2012 and was the Company's independent registered public accounting firm until July 2, 2013, when the Audit Committee appointed BDO as the Company's independent registered public accounting firm. The Company has been advised by BDO that neither it nor any member thereof has any financial interest, direct or indirect, in the Company or any of its affiliates, in any capacity. One or more representatives of BDO is expected to be present at this year's Annual Meeting with an opportunity to make a statement if he or she desires to do so and to answer appropriate questions with respect to that firm's examination of the Company's financial statements and records for the fiscal year ended December 31, 2014.

Although the submission of the appointment of BDO is not required by the Company's bylaws, the Board is submitting it to the shareholders to ascertain their views. If the shareholders do not ratify the appointment, we will not be bound to seek another independent registered public accountant for 2015, but the selection of other independent registered public accounting firms will be considered in future years.

Audit and Other Fees Paid to Independent Registered Public Accounting Firm

The following table presents fees billed by BDO for professional services rendered for the fiscal years ended December 31, 2014 and 2013, respectively.

Services Rendered	Fiscal 2014	**Fiscal 2013 (3)**
Audit Fees (1)	$ 400,915	$ 236,146
Audit-Related Fees (2)	68,343	18,200
Total	$ 469,258	$ 254,346

(1) Audit fees consisted principally of fees related to audit services in connection with the Company's annual reports, quarterly reports, FDIC Loss Sharing Reports, and HUD audits, including out-of-pocket expenses.

(2) Audit-related fees primarily consisted of fees for services in connection with public and private placement offerings, registration statement on Form S-8, employee benefit plans, and various accounting consultations and other technical issues for assurance and related services that were reasonably related to the performance of the Audit.

(3) The Company's 2014 proxy statement contained a typographical error with respect to fees billed by BDO for professional services rendered during fiscal year 2013. The corrected amounts are presented in the table above.

During the Company's fiscal years ending December 31, 2014 and 2013, BDO did not perform any services other than the audit of the Company's annual financial statements (including the services identified in footnotes (1) and (2) to the table above) and review of financial statements included in the registrant's Form 10-Q reports or services that are normally provided by the accountant in connection with statutory and regulatory filings for the foregoing engagements for those fiscal years. BDO advised the Company that none of the hours expended on the audit engagement during the Company's fiscal year ending December 31, 2014 and 2013 were attributed to work performed by persons other than full-time, permanent employees of their company.

On July 2, 2013, the Company dismissed Baker Tilly as the principal accountants for the Company. The decision to change the Company's principal accountants was recommended by the Audit Committee and subsequently approved by the Board. Concurrently therewith, the Audit Committee recommended, and the Board approved, the accounting firm of BDO as its new principal accountants for the year ending December 31, 2013.

The audit report of Baker Tilly on the consolidated financial statements of the Company as of and for the year ended December 31, 2012 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principle.

During the Company’s two most recently completed fiscal years and through the date of the Company’s engagement of BDO, there were no disagreements or reportable events, as described in Item 304(a)(1)(iv) or Item 304(a)(1)(v) of Regulation S-K, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Baker Tilly, would have caused it to make reference to the subject matter thereof in connection with its report.

During the Company’s two most recently completed fiscal years and through the date of the Company’s engagement of BDO, the Company did not consult with BDO regarding (i) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, and no written

Table of Contents

report or oral advice was provided by BDO that was an important factor considered by the Company in reaching a decision as to accounting, auditing or financial reporting issues, or (ii) any matter that was either the subject of a disagreement or reportable event, as described in Item 304(a)(1)(iv) or Item 304(a)(1)(v) of Regulation S-K, respectively.

The Company requested and received from Baker Tilly a letter, dated July 2, 2013, addressed to the Securities and Exchange Commission (the "Commission") stating that during the Company’s two most recent fiscal years and the subsequent interim period preceding Baker Tilly’s dismissal there were: (i) no disagreements with Baker Tilly on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Baker Tilly, would have caused it to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements of the Company, and (ii) no “reportable events” (as such term is defined in Item 304(a)(1)(v) of Regulation S-K). A copy of the letter was filed as Exhibit 16.1 (which was incorporated by reference therein) to the Current Report on Form 8-K filed July 3, 2013.

Pre-approval of Audit and Non-Audit Services

Under our Audit Committee charter, the Audit Committee is required to pre-approve all auditing services (including providing comfort letters or consents in connection with securities underwritings) and permitted non-audit services to be performed for us by the independent registered public accounting firm. The Audit Committee may also delegate the ability to pre-approve audit and permitted non-audited services to a subcommittee consisting of one or more members, provided that any pre-approvals are reported to the full committee at its next scheduled meeting.

In addition, the Audit Committee has adopted a pre-approval policy whereby all services performed by the independent auditor are to be pre-approved. Each year, the Audit Committee approves an annual program of work for each of the audit and audit-related services to be performed by the independent auditor. Engagement-by-engagement pre-approval is not required except for exceptional or ad-hoc incremental engagements which would result in fees exceeding those pre-approved for the applicable category of service. If necessary, a work program for each category of service can be supplemented with additional pre-approved amounts after the Audit Committee reviews the additional services to be performed. The Audit Committee may also consider specific engagements in the “all other services” category on an engagement-by-engagement basis.

All services performed for the Company by BDO USA, LLP during 2014 were pre-approved by the Audit Committee.

THE BOARD RECOMMENDS A VOTE “FOR” APPROVAL OF PROPOSAL 2 TO RATIFY THE

APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Table of Contents

AUDIT COMMITTEE REPORT

Management is responsible for the financial reporting process, including the system of internal controls, and for the preparation of our consolidated financial statements in accordance with generally accepted accounting principles. Our independent registered public accounting firm is responsible for auditing those financial statements. The Audit Committee's responsibility is to monitor and review these processes, acting in an oversight capacity relying on the information provided to it and on the representations made by management and the independent registered accounting firm.

In connection with the preparation and filing of our Annual Report on Form 10-K for the year ended December 31, 2014, the Audit Committee (a) reviewed and discussed the audited financial statements with our management, (b) discussed with BDO USA, LLP, our independent registered public accounting firm, the matters required to be discussed by the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16 (Communications with Audit Committees), and (c) has received and reviewed the written disclosures and the letter from BDO USA, LLP required by Independence Standards Board Standard No. 1 (as modified or supplemented) regarding BDO USA, LLP communications with the Audit Committee concerning independence and has discussed with BDO USA, LLP its independence. Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

Respectfully submitted:

T. Lawrence Way, Chair

Daniel K. Rothermel

John R. Miller

PROPOSAL 3
A NON-BINDING ADVISORY NOTE ON EXECUTIVE COMPENSATION

Section 14A of the Securities Exchange Act of 1934, as amended ("Section 14A"), requires that we include in this Proxy Statement the opportunity for our shareholders to vote on an advisory (non-binding) resolution to approve the compensation of our named executive officers (sometimes referred to as "Say-on-Pay"). Accordingly, the following resolution is being submitted for shareholder approval at the Annual Meeting:

"RESOLVED, that the compensation paid to the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion, is hereby approved."

As described in detail under "Compensation Discussion and Analysis," the Board believes that the talents of our employees have a significant influence on our long-term success. Our compensation system plays a significant role in our ability to attract, retain and motivate a quality workforce. The Board believes that our current compensation program links executive compensation to performance, aligning the interests of our executive officers with those of our shareholders and encourages you to review carefully the Compensation Discussion and Analysis beginning on page 20 and the tabular and other disclosures on executive compensation beginning on page 26 of this Proxy Statement.

As an advisory vote, this proposal is not binding upon us as a corporation. However, our Board and Compensation Committee, which are responsible for the design and administration of our executive compensation practices, value the opinions of our shareholders expressed through your vote on this proposal. The Board and Compensation Committee expect to take into account the outcome of this vote in considering future executive compensation arrangements.

THE BOARD RECOMMENDS A VOTE "FOR" THE SAY-ON-PAY RESOLUTION.

Table of Contents

MANAGEMENT

The names, ages, positions and business backgrounds of each of the directors and executive officers of the Company are provided below.

OUR BOARD OF DIRECTORS AND MANAGEMENT

The Board members of the Company are:

Name	Director Since*	Position	Age	Term Expires:
Bhanu Choudhrie	2009	Director	36	2015
Daniel K. Rothermel	2009	Director, Lead Independent Director	77	2016
John R. Miller	2010	Director	68	2016
Jay S. Sidhu	2009	Director, Chairman and Chief Executive Officer	63	2015
T. Lawrence Way	2005	Director	66	2017
Steven J. Zuckerman	2009	Director	51	2017

* Pre-2011 dates include services as a director of Customers Bank prior to its reorganization into a bank holding company structure pursuant to which Customers Bank became a wholly-owned subsidiary of the Company (the "Reorganization") on September 17, 2011.

Below are the biographies of our directors, as well as information on their experience, qualifications and skills that support their service as a director of the Company:

Jay S. Sidhu, Chairman and Chief Executive Officer – Age 63

Mr. Sidhu joined Customers Bank as Chairman and Chief Executive Officer in the second quarter of 2009. Before joining Customers Bank, Mr. Sidhu was the Chief Executive Officer of Sovereign Bank from 1989 and its Chairman from 2002 until his retirement on December 31, 2006. Mr. Sidhu was also the Chairman and Chief Executive Officer of SIDHU Advisors, LLC, a consulting firm from 2007 to 2009. Mr. Sidhu received Financial World's CEO of the year award, and was named Turnaround Entrepreneur of the Year. He has received many other awards and honors, including a Hero of Liberty Award from the National Liberty Museum. Mr. Sidhu also serves as a Director of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, with main offices in Jacksonville, Florida. Mr. Sidhu has also served on the boards of numerous businesses and not-for-profits, including as a member of the board of Grupo Santander. He obtained an MBA from Wilkes University and is a graduate of Harvard Business School's Leadership Course. Mr. Sidhu also helped establish the Jay Sidhu School of Business and Leadership at Wilkes University.

Mr. Sidhu's demonstration of day-to-day leadership, combined with his extensive banking sector experience, provide the board with intimate knowledge of Customers Bank's direction and strategic opportunities.

Daniel K. Rothermel, Director - Age 77

Mr. Rothermel has been the Chairman of the Board of Cumru Associates, Inc., a private holding company located in Reading, Pennsylvania, since January 1, 2013. Prior to that, and since 1989, he was President and Chief Executive

Officer of Cumru Associates, Inc. Mr. Rothermel also served over twenty years on the board of directors of Sovereign Bancorp and Sovereign Bank. At Sovereign, he was lead independent Director and served on the Audit, Governance, and Risk Management Committee and was chairman of the Executive Committee. He is a graduate of The Pennsylvania State University with a B.S. in Business Administration (finance and accounting) and of the American University with a Juris Doctor.

Mr. Rothermel's background as an attorney and general counsel, plus his extensive service as director of Sovereign Bank, provide unique and valuable perspective to the board.

John R. Miller, Director - Age 68

Mr. Miller, a retired CPA, has been a member of the Board of Trustees of Wilkes University since 1996, and in the immediate past served as Chairman of the Board, a position which he also held from 2005 to 2008. He has also been the Chairman of the Board of Trustees of the Osborn Retirement Community since 2006. Mr. Miller served in various capacities as an accountant at KPMG, LLP, a global accounting, tax and advisory firm, from 1968 to January 2005, including tenure as Vice Chairman from 1999 to 2004, as a

Table of Contents

member of the Board of Directors from 1993 to 1997, and as a member of the Management Committee from 1997 to 2004. He was the Chairman of the United States Comptroller General's Governmental Auditing Standards Advisory Council from 2001 to 2008. He has received the Ellis Island Medal of Honor, recognizing distinguished Americans who have made significant contributions to the nation's heritage. Mr. Miller is a graduate of Wilkes University with a B.S. in Commerce and Finance.

Mr. Miller's 36 years of experience at KPMG, LLP and 7 years as Chairman of the US Comptroller's General Auditing Standards Advisory Council have given him valuable experience and insight into auditing, accounting and financial reporting, making him a valuable asset to the board.

T. Lawrence Way, Director and Chairman of the Audit Committee – Age 66

Mr. Way was the Chairman and CEO of Alco Industries, Inc., a diversified industrial manufacturing company, from 2000 until his retirement on December 31, 2010. During his 34 year career with Alco Industries, Mr. Way held a variety of positions including that of Chief Financial Officer and President. He is a Certified Public Accountant, received a Masters in Business Administration from Mount St. Mary's College, a Juris Doctor degree from Rutgers-Camden School of Law, and graduated from Tufts University. He has experience in varied areas of management, finance, operations, and mergers and acquisitions.

Mr. Way's background as an attorney and Certified Public Accountant, as well as his experience leading a company through the current economic, social and governance issues as Chairman and Chief Executive Officer of Alco Industries, Inc., make him well-suited to serve on the board.

Steven J. Zuckerman, Director – Age 51

Mr. Zuckerman founded Clipper Magazine in 1983 as a junior at Franklin Marshall College in Lancaster, PA. He graduated with a BA in Business Management in 1985 and went on to build Clipper into a nationwide media company with over 1000 employees, publishing and direct mailing advertising magazines to 500 markets in 31 states. His subsidiary companies included Spencer Advertising, Total Loyalty Solutions, Clipper Web Development, and Clipper Graphics and Jaxxon Promotions. In 2003, he sold his company to Gannett Corporation, publishers of USA Today. He continued as CEO until June 2013.

Since 2013, he has been a partner and works in his real estate development firm, Oaktree Development Group, as well as owns and serves as managing partner of a minor league baseball team, The Lancaster Barnstormers.

Mr. Zuckerman's experiences as an entrepreneur, owner of privately held business, investments in commercial real estate and in the advertising industry make him uniquely situated to provide the board with insight in the key areas of lending, marketing and customer strategies.

Bhanu Choudhrie, Director – Age 36

Mr. Choudhrie has served as a director of Customers Bank since July 2009, and was an original member of Customers Bancorp's board. Mr. Choudhrie is a private equity investor with investments in the United States, United Kingdom, Europe and Asia. He has been Executive Director of C&C Alpha Group Limited, a London based family private equity group, since November 2006, and was the Executive Director of C&C Business Solutions Ltd. from June 2003 to November 2006. C&C Alpha Group was founded in 2002. The company, with global headquarters in London, has established offices in several countries. Its team comprises entrepreneurs, financial analysts, project developers, project managers and consultants. Additionally, Mr. Choudhrie is a director of Atlantic Coast Financial Corporation, the holding company for Atlantic Coast Bank, with main offices in Jacksonville, Florida. Mr. Choudhrie also currently serves as a Trustee of a United Kingdom registered charity – "Path to Success."

As an executive of a UK-based firm with international private equity interests, Mr. Choudhrie provides the board with a strategic management and global market perspective.

Executive Officers

Richard A. Ehst, President and Chief Operating Officer – Age 68

Mr. Ehst joined Customers Bank as President and Chief Operating Officer in August 2009. Mr. Ehst was previously an Executive Vice President, Commercial Middle Market, Mid-Atlantic Division, of Sovereign Bank. Before this role, Mr. Ehst served as Sovereign Bank Regional President for Berks County from 2004 until 2009 and Managing Director of Corporate Communications for Sovereign from 2000 until 2004 where his responsibilities included reputation risk management and marketing services support systems. Mr. Ehst also began serving as a Trustee of Albright College in 2010 and also serves as a director of Pennsylvania Business Council, a director of Reading Health System Foundation, the Chair of the Pennsylvania Business Council Foundation and the Chair of the Pennsylvania Business Education Partnership. Before joining Sovereign Bank, Mr. Ehst was an independent consultant to more than

Table of Contents

70 financial institutions in the mid-Atlantic region, including Sovereign Bank, where he provided guidance on regulatory matters, mergers and acquisitions and risk management.

Mr. Ehst has extensive knowledge and lengthy experience in the banking industry, as well as superlative business development skills which provide significant value to the board.

Robert E. Wahlman, Executive Vice President, Chief Financial Officer – Age 59

Prior to joining the Company in August 2013, Mr. Wahlman served from March 2009 to May 2013 as the Executive Vice President and Chief Financial and Investment Officer of Doral Financial Corporation, a public bank holding company. He served from June 2003 to February 2009 as Chief Financial Officer of the following divisions and affiliates of Merrill Lynch & Co., a capital markets, advisory and wealth management company: U.S. Bank Group, Merrill Lynch Bank USA, and Merrill Lynch Bank and Trust. From January 2001 to June 2003, Mr. Wahlman worked as Controller of the U.S. Bank Group division of Merrill Lynch & Co. Prior to joining Merrill Lynch & Co., Mr. Wahlman served as the Controller and Chief Accounting Officer of CIGNA Corporation's four life insurance subsidiaries from September 1998 to January 2001. Mr. Wahlman is a Certified Public Accountant and holds a Bachelor of Arts degree in Economics and History and a Master of Business Administration degree with a concentration in Finance from the University of Arkansas.

Glenn A. Hedde, Executive Vice President and President of Banking to Mortgage Companies – Age 54

Mr. Hedde is the President of Customers Bank Warehouse Lending. He joined Customers Bank in August 2009. Mr. Hedde was the President of Commercial Operations at Popular Financial Holdings, LLC from 2000 to 2008. During his time at Popular Financial, Mr. Hedde was a member of a senior leadership team with direct responsibility for management of $300+ million in warehouse lending. Additionally, Mr. Hedde was responsible for business development, risk management, collateral operations and compliance. Mr. Hedde worked in mortgage banking, business development and credit quality management for various companies including GE Capital Mortgage Services, Inc. and PNC Bank from 1992 through 2000.

Steven J. Issa, Executive Vice President, New England President and Market Chief Lending Officer – Age 60

Mr. Issa joined Customers Bank as Executive Vice President, New England Market President and Market Chief Lending Officer in May 2013. Prior to joining Customers Bank, Mr. Issa served as Executive Vice President and Managing Director of Commercial/Specialty Lending at Flagstar Bank from 2010 to 2013, where his responsibilities included being the Chief Lending Officer. From 1997 to 2010, Mr. Issa was employed by Sovereign Bank, where he served as Regional President and Managing Director for the Southern New England Commercial, Specialty and Retail Banking Group, with direct responsibility for the Southern New England Market. Before joining Sovereign Bank, Mr. Issa held various executive positions with Fleet Bank and Shawmut Bank. Mr. Issa is an active member of the Rhode Island community, presently serving on the boards of the Greater Providence Chamber of Commerce, Delta Dental of RI, Presidents Council at Providence College, Miriam Hospital and the Governor’s Commodore Advisory Boards. Mr. Issa holds an undergraduate degree in Accounting and an M.B.A. from Bryant University in Smithfield, Rhode Island.

BOARD GOVERNANCE

Board Leadership Structure

The Board of Directors believes that our Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with our business and the financial services industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. Our independent directors bring

experience, oversight and expertise from outside the Company and industry, while the Chief Executive Officer brings industry-specific experience and expertise. The Board believes that the combined role of Chairman and Chief Executive Officer promotes strategy development, and its execution, and facilitates information flow between management and the Board, which are essential to effective governance.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the combined role of Chairman and Chief Executive Officer, together with a Lead Independent Director having the duties described below, is in the best interest of shareholders because it provides the appropriate balance between management and strategy development on the one hand and independent oversight on the other.

Daniel K. Rothermel, an independent director who serves as Chairman of the Nominating and Corporate Governance Committee, was selected by the Board of Directors to serve as the Lead Independent Director. As Lead Independent Director, Mr. Rothermel presides over all Board meetings when the Chairman is not present, and presides over meetings of the non-management directors held in executive session. The Lead Independent Director has the responsibility of meeting and consulting with the Chairman and Chief

Table of Contents
Executive Officer on Board and committee meeting agendas, acting as a liaison between management and the non-management directors, including maintaining frequent contact with the Chairman and Chief Executive Officer and advising him on the efficiency of the Board meetings, and facilitating teamwork and communication between the non-management directors and management.

Risk Oversight

The Board of Directors believes that establishing the right “tone at the top” and full and open communication between management and the Board of Directors are essential for effective risk management and oversight. At each regular Board meeting, the directors receive a summary on areas of material risk to Customers Bank, including credit, market, liquidity, legal/compliance and operational risk. These summary reports are in a scorecard structure and they assist the directors in the early identification of risks. The Board of Customers Bank also created a Directors Risk Committee and a Management Risk Committee to monitor and oversee all risk of Customers Bank in a more detailed fashion. The Board can ask either committee to research issues and address any risk issues that merit additional focus and attention. These committees develop recommendations to manage risk and bring any material issues to the attention of the full Board.

The Board of Directors has an active role, as a whole and also at the committee level, in overseeing management of our risks. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to areas of financial reporting including those related to accounting regulation. The Audit Committee is composed of independent, non-executive directors free from any relationship that would interfere with the exercise of his or her independent judgment. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee reviews the independence and performance of the auditors and annually recommends to the Board of Directors the appointment of the independent auditors or approves any discharge of auditors when circumstances warrant. The chief internal auditor reports directly to the Audit Committee. The annual risk assessment and internal audit plan are approved by the Audit Committee. The Audit Committee performs other oversight functions as requested by the Board of Directors.

The Compensation Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to our compensation policies and programs. The Nominating and Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks associated with Board of Directors organization and membership, and succession planning for our directors.

The Board also has a Risk Committee for the holding company which reports and assists the Board of Directors on overseeing and reviewing information regarding our enterprise risk management framework.

Director Independence

Of the directors of the Company who have served since January 1, 2014, each of Messrs. Choudhrie, Miller, Rothermel, Way and Zuckerman (who remain as current directors of the Company) is considered independent, as independence for Board members is defined under NASDAQ and the New York Stock Exchange. In determining these directors met the definition of an independent director, the Board of Directors considered routine banking transactions between Customers Bank or its affiliates and certain of the directors, their family members and businesses with whom they are associated, such as loans, deposit accounts, routine purchases of insurance or securities brokerage products, any overdrafts that may have occurred on deposit accounts, any contributions we made to non-profit organizations with whom any of the directors are associated, and any transactions that are discussed under “Transactions With Related Parties.”

Table of Contents

Information about Board Committees

The table below highlights the current membership composition of our directors on our Board committees for the Company:

Name	Executive	Audit	Compensation	Risk	Nominating and Corporate Governance
Daniel K. Rothermel	X	X	X	X*	X*
Jay S. Sidhu	X*			X	
T. Lawrence Way		X*		X	X
Steven J. Zuckerman			X*		X
John R. Miller		X		X	X
Bhanu Choudhrie	X			X	

* Committee Chair

Committee Charters

Each of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee have adopted charters which are available on our website, www.customersbank.com, by clicking on "About Us" and then "Corporate Governance."

Meeting Attendance

In 2014, the Company's Board of Directors met 14 times. Each of the Company's 2014 directors attended 75% or more of the meetings of the full Board of Directors and the committees of the Board on which he served in 2014.

While we have no formal policy regarding director attendance at our Annual Meeting, we make every effort to schedule our Annual Meeting at a time and date to maximize attendance by directors, taking into account the directors' schedules. We believe that Annual Meetings provide an opportunity for shareholders to communicate with directors and have requested that all directors make every effort to attend our Annual Meetings. Historically, more than a majority of the directors have done so.

Director Nominations

Our bylaws contain provisions that address the process by which a shareholder may nominate a director to stand for election to the Board of Directors at our Annual Meeting of Shareholders.

In evaluating director nominees, the Nominating and Corporate Governance Committee (the "Committee") considers the following factors:

- The appropriate size of our Board of Directors and its committees;
- The perceived needs of the Board for particular skills, background, and business experience;
- The skills, background, reputation, and business experience of nominees compared to the skills, background, reputation, and business experience already possessed by other members of the Board; and
- The nominees' independence.

There are no stated minimum criteria for director nominees, and the Committee may also consider such other factors as it may deem are in our best interests and the interests of our shareholders. The Committee does, however, believe it appropriate for at least one member of the Board to meet the criteria for an "Audit Committee financial expert," that a majority of the members of the Board meet the definition of "independent director" under NASDAQ and the New York

Stock Exchange rules, and that one or more key members of management participate as members of the Board.

While we have no formal policy with respect to diversity on the Board, in order to enhance the overall quality of the Board's deliberations and decisions the Committee seeks candidates with diverse professional backgrounds and experiences, representing a mix of industries and professions, with varied skill sets and expertise.

15

Table of Contents

The Committee identifies nominees by first evaluating the current members of the expiring class of directors willing to continue in service. Current members of the expiring class with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by members of the expiring class with that of obtaining a new perspective. If any member of the expiring class does not wish to continue in service or if the Committee or the Board decides not to re-nominate a member for reelection, the Committee identifies the desired skills and experience of a new nominee, and discusses with the Board suggestions as to individuals that meet the criteria. The Committee has not in the past engaged third parties to identify, evaluate, or assist in identifying potential nominees, but relies on community and business contacts it has established through its directors, officers and professional advisors to help it identify potential director candidates when a specific need is identified.

The Committee will evaluate any recommendation for a director nominee proposed by a shareholder. In order to be evaluated in connection with the Committee's procedures for evaluating potential director nominees, any recommendation for director nominee must be submitted in accordance with our procedures for shareholder nominees described below. In particular, all nominations made by a shareholder must be made in writing, delivered or mailed by registered or certified mail, postage prepaid, return receipt requested, to the Secretary of the Company (at our corporate headquarters in Wyomissing, Pennsylvania) and received by the Secretary not less than ninety (90) days nor more than one hundred and twenty (120) days prior to any meeting of the shareholders called for the election of directors. If the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the shareholder must be so received not earlier than the one hundred and twentieth (120th) day prior to such annual meeting and not later than the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement (by press release reported by a national news service or an SEC filing pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") is first made by the Company of the date of the annual meeting.

Every nomination must include: (a) the consent of the person nominated to serve as a director if elected; (b) the name, age, business address and residence address of the nominee; (c) the principal occupation or employment of the nominee; (d) the class and number of shares of the Company beneficially owned by the nominee; (e) the name and address of the notifying shareholder; (f) the class and number of shares of the Company owned by the notifying shareholder; (g) any option, warrant, convertible security, stock appreciation right, or other derivative positions held or beneficially held (directly or indirectly) by such shareholder and such beneficial owner and whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding has been made, the effect or intent of which is to increase or decrease the voting power or economic profit of such shareholder or such beneficial owner with respect to the Company's securities; (h) any proxy, contract, arrangement, understanding or relationship pursuant to which such shareholder or beneficial owner, if any, has a right to vote any shares of any security of the Company or has granted any such right to any person or persons; (i) a description of all arrangements or understandings between the shareholder and the nominee and any other person or persons (naming such person or persons) pursuant to which the nomination is to be made by shareholder and the reasons for such nomination; (j) all information that would be relevant to a determination by the Board of Directors in its sole discretion as to whether the nominee proposed by such shareholder is "independent" within the meaning of all applicable securities law, and stock exchange requirements; (k) all information that would be relevant to a determination by the Board of Directors (or any relevant committee) in its sole discretion as to whether the nominee proposed by such shareholder meets the standards for Board membership set forth by the Board of Directors (or any committee thereof) in any publicly available documents, and (l) all other information relating to the nominee and the notifying shareholder that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act and Rule 14a-11 there under (including such person's written consent to being named in the proxy statement as a nominee). Additionally, the nomination must be accompanied by the nominee's acknowledgement and agreement (in form reasonably acceptable to the Board of Directors) that (x) he or she is not and will not become a party to (1) any

agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the Company, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Company, or (2) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the Company, with such person's fiduciary duties under applicable law; and (y) if elected, he or she would meet and comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Company.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee has responsibility for identifying and evaluating candidates for director and recommending the nomination of directors to the full Board. This Committee:

- Reviews and assesses the adequacy of our corporate governance guidelines, personal codes of conduct and related internal policies and guidelines;
- Assists the Board in interpreting and applying corporate governance guidelines, and recommends any proposed changes to the Board of Directors for approval; and

16

Table of Contents

- Makes recommendations to the Board regarding non-management director compensation.

The Board of Directors has determined that each member of the Nominating and Corporate Governance Committee in 2014 was independent as defined under NASDAQ and New York Stock Exchange rules.

While the Nominating and Corporate Governance Committee held no formal meetings during 2014, the members of the Nominating and Corporate Governance Committee took action in connection with the fulfillment of their duties as described above during a Nominating and Corporate Governance Committee meeting in February of 2015.

Audit Committee

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. For this purpose, the Audit Committee performs several functions:

- Approves in advance the engagement of the independent registered public accounting firm for all audit and non-audit services, and approves the fees and other terms of the engagement;
- Maintains responsibility for the appointment, compensation, oversight, retention and termination of our independent registered public accounting firm and evaluates the qualifications, performance, and independence of the independent registered public accounting firm;
- Establishes, maintains and oversees procedures to facilitate the receipt, retention and treatment of complaints received from third parties regarding accounting, internal accounting controls, or auditing matters;
- Reviews and discusses, with our independent registered public accounting firm, the adequacy and effectiveness of, the Company’s internal controls, including any significant deficiencies in the design or operation of internal controls and significant changes in internal controls reported by the independent auditor or management, and receives reports from management regarding the Company’s internal controls and procedures;
- Reviews the critical accounting policies and all alternative treatments of financial information discussed by the independent registered public accounting firm with management, and reviews with management significant judgments made in the preparation of financial statements;
- Reviews, with management and our independent registered public accounting firm, our financial reporting processes and internal financial controls;
- Reviews the annual audited financial statements and recommends to the Board of Directors their inclusion in our annual report;
- Reviews the quarterly financial statements and earnings press releases;
- Reviews and approves any related party transactions; and
- Periodically reviews and discusses with the independent registered public accounting firm the matters required to be discussed by PCAOB Auditing Standard No. 16 (communications with the Audit Committee) and any formal written statements received from the independent registered public accounting firm.

The Board of Directors has determined that each member of the Audit Committee in 2014 was independent as independence for Audit Committee members is defined under the NASDAQ and NYSE rules, and has further determined that Mr. Miller is an “audit committee financial expert” within the meaning of the rules of the Securities and Exchange Commission.

The Audit Committee held 11 meetings during 2014.

Risk Committee

The Risk Committee reports and assists the Board of Directors in overseeing and reviewing the information regarding our enterprise risk management framework, including the policies, procedures and practices employed to manage credit risk, market risk, operational risk, legal/regulatory risk, information technology risk, cyber security risk and regulatory risk. For this purpose, the Risk Committee performs the following functions:

17

Table of Contents

- Reviews and approves the charters of the Board Risk Committee, Management ALCO and Management Risk Committees. The Committee reviews and approves our significant risk assessment and risk management policies. In addition, the Committee retains the ability to authorize management to develop and implement any additional policies relating to risk assessment and management;
- Receives information from the Chief Credit Officer and discusses matters related to the management of credit risk as appropriate;
- Receives information from the Chief Executive Officer, Chief Financial Officer and director of Enterprise Risk Management regarding the activities of Management and ALCO Committee and discusses matters related to the management of market risk and our aggregate risk profile as appropriate;
- Receives information from the Chief Auditor regarding matters related to risk management throughout the enterprise as appropriate;
- Receives information from the General Counsel regarding matters related to Legal and Compliance risk;
- Identifies and prioritizes the risk factors and projected mitigation strategies associated with each CAMELS+ component. In so doing, the Committee has assigned responsibility of each risk factor to management and will continue to monitor our performance and controls;
- Receives information regarding the allowance for loan and lease loss estimation methodology and estimates;
- Identifies key ratios and established risk tolerance thresholds in order to assess the current and projected level of risk; and
- Reviews the overall enterprise risk priorities and discusses the strategic initiatives required to improve our risk profile. As part of these reviews, discusses both internal and external factors that could impact the risk portion of the enterprise.

The Risk Committee held 14 meetings during 2014.

Compensation Committee

The Committee is charged with the responsibility of overseeing the Company's compensation philosophy of compensating officers and key management personnel of the Company at a level sufficient to attract, motivate, and retain the talent needed to achieve the short-term and long-term goals of the Company. The Committee determines that the officers and key management personnel of the Company are compensated with salary, supplemental and incentive compensation, and benefits that are consistent with such philosophy.

The Committee duties include:

1. Review, evaluate, and recommend to the Board the compensation of, and benefits provided to, the Company's executive officers, including the Chief Executive Officer, at least annually, and report to the Board concerning its recommendations for final Board approval; provided that the Chief Executive Officer may not be present during voting or deliberations on his or her compensation.
2. The Committee will consider the effectiveness of risk management strategies utilized during the year and the value of similar incentives to the senior executive officers of comparable companies.
3. The Committee shall review and approve corporate goals and objectives relevant to the compensation of the executive officers, evaluate the performance of the executive officers in light of those goals and objectives, and approve the level of the executive officers' compensation based on that evaluation, subject to final approval by the Board.
4. Administer the Company's stock option or other equity incentive plans, including without limitation, making grants (subject to final approval by the Board) and monitoring awards under such plans, Interpreting the terms of such plans and taking such other actions as contemplated by such plans.
5. Review and advise on: (i) general salary, (ii) employee benefits, and (iii) other general compensation matters, with the Company's management.

Table of Contents

6. Annually review and assess compensation programs to determine if they expose the Company to unnecessary or excessive risk and to implement policies and practices that may help manage and monitor such risk within acceptable parameters.
7. Review and discuss with management the Compensation Discussion and Analysis ("CD&A") and related disclosures to be included in the Company's annual proxy statement or annual report on Form 1O-K ("SEC Filings") and, based thereon, determine whether to recommend to the Board that the CD&A be included in the Company's annual proxy statement or annual report on Form 10-K.

For additional details regarding the Compensation Committee’s role in determining executive compensation, please see “Executive Compensation; Compensation Discussion and Analysis” beginning at page 20 of this Proxy Statement.

The Board of Directors has determined that each member of the Compensation Committee in 2014 was independent as independence for Compensation Committee members is defined under the NASDAQ and New York Stock Exchange rules.

The Compensation Committee held four meeting during 2014.

Consultants, Legal Counsel and Other Advisers:

1. The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser.
2. The Committee shall be directly responsible for the appointment, termination, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the Committee.
3. The Company must provide for appropriate funding, as determined by the Committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any other adviser retained by the Committee.
4. The Committee may select, or receive advice from, a compensation consultant, legal counsel or other adviser to the Committee, other than in-house legal counsel, only after taking into consideration the following factors:

i. the provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;

ii. the amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;

iii. the policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;

iv. any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee;

v. any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and

vi. any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the Company.

Compensation Consultant

In 2014, the Compensation Committee retained VistraPartners, LLC (“VistraPartners”) to provide compensation analysis for the Company’s 2013/2014 compensation. The services provided included compensation analysis, preparation of a report that compared each named executive officer’s compensation to peer group executive compensation, and having a representative attend meetings of the Compensation Committee and the Board of Directors as appropriate to discuss executive compensation. The Company paid VistraPartners $96,000 for services rendered in connection with their engagement as a compensation consultant for the year ended December 31, 2014. The Compensation Committee has determined that a conflict of interest does not exist.

Compensation Committee Interlocks and Insider Participation

Except for the relationship of Mr. Zuckerman described below, none of the members of our Compensation Committee had any relationship requiring disclosure pursuant to Item 404 of Regulation S-K under the Securities Act nor any other interlocking

19

Table of Contents

relationships as defined by the SEC. Mr. Zuckerman holds 25% of issued and outstanding stock of Jaxxon Promotions, Inc. For the year ended December 31, 2014, Customers Bank paid $46,900 to Jaxxon Promotions, Inc. for marketing services.

For the year ended December 31, 2014, the Company has paid approximately $11,300 to Jastrem Premium Landscapes. An immediate family member of an Executive Vice President of the Bank is the sole proprietor of Jastrem Premium Landscapes.

Risk Assessment of Compensation Policies and Practices

Our management team, with the assistance of compensation consultant VistraPartners, conducted an assessment of the risks related to or arising from our compensation policies and practices. The Compensation Committee reviewed and discussed this risk assessment with management and VistraPartners. Based on this assessment, the Compensation Committee determined that any risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on the Company.

Code of Ethics and Business Conduct

Each of our directors, officers and employees are required to comply with the Customers Bancorp, Inc. Code of Ethics and Business Conduct adopted by us ("Code of Conduct"). The Code of Conduct sets forth policies covering a broad range of subjects and requires compliance with laws and regulations applicable to our business. The Code of Conduct is available on our website at www.customersbank.com, under the "About Us-Corporate Governance-Code of Conduct" captions. We will post to our website any amendments to the Code of Conduct, or waiver from the provisions thereof for executive officers or directors, under the "About Us-Corporate Governance-Code of Conduct" caption.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes our executive compensation program and addresses how we made executive compensation decisions for our senior executive officers during fiscal year 2014. The senior executive officers covered by this Compensation Discussion and Analysis are the "named executive officers" set forth in the Summary Compensation Table beginning on page 26 of this proxy statement ("Summary Compensation Table").

Compensation Objectives and the Focus of Compensation Rewards

Our approach to compensation is to produce long-term profitable growth by using specific measures that relate to shareholder return and support the company strategy, including:

- Return On Equity
- Return on Assets
- Growth in earnings
- Quality of assets (credit quality)
- Expenses relative to total assets

Our compensation program is designed to attract highly qualified individuals, retain those individuals in a competitive marketplace for executive talent and motivate performance in a manner that maximizes corporate performance while ensuring that these programs do not encourage unnecessary or excessive risks that threaten the value of the Company. We seek to align individual performance with long-term strategic business objectives and shareholder value, and believe that the combination of executive compensation provided fulfills these objectives.

Currently, our executive compensation program has three key elements: (1) salary, (2) bonus, and (3) long-term equity incentives. The mix of short term performance incentives versus long term incentives are reviewed annually by the Compensation Committee with the intention of achieving a reasonable balance of those incentives. However, we do not have set percentages of short term versus long term incentives. We also do not have a policy with respect to the mix between the cash and equity components of executive compensation, although as noted below certain portions of the annual bonus are paid in stock and subject to a vesting period before payout.

Compensation philosophy is ultimately determined by the Board of Directors, based upon the recommendations of the Compensation Committee, which is comprised solely of independent directors as defined by the rules of the New York Stock Exchange. Our Chief Executive Officer makes recommendations to the Compensation Committee concerning the compensation of other executive officers,

Table of Contents
but does not participate in establishing his own compensation. As part of this process, the Compensation Committee reviews a report provided by its compensation consultant, VistraPartners, LLC ("Consultant") that compares each named executive officer's compensation to peer group executive compensation ("Report").

The guiding principle of our compensation philosophy is that the compensation of executive officers should be based primarily on the financial performance of the Company, and partially on individual performance. While this "pay-for-performance" philosophy requires the Compensation Committee to first consider our profitability, return on equity, strength of balance sheet, quality of assets, and growth rate in earnings, the Compensation Committee takes steps not to reward excessive risk taking. These principles are reflected in the specific elements of the compensation program, particularly the bonus and long-term equity income programs, as described below.

Peer Group Companies

When developing the peer group, Compensation Committee considers Eastern United States Regional Banks that are similar to the bank in size and scope of operations. Key metrics considered in evaluating performance include total assets, earnings growth, return on assets and return on equity, reserves on non-performing loans, expenses relative to average assets and total revenue per person. Generally, banking organizations that fall in the range from $3 billion to $8 billion in asset size are considered comparable. The Compensation Committee generally seeks to provide salary and bonus compensation to the named executive officers at approximately the median of the reported compensation information from the Peer Group Banks to establish salary and bonus levels for the named executive officers. The Compensation Committee retains the flexibility to consider, in its sole discretion, various subjective factors when making compensation decisions and took in consideration the company's performance relative to the Peer Group as reported in the table below.

2014 Performance Customers Bancorp, Inc. vs. Peer Group	Assets	Earnings Growth	ROAE (YTD AVG)	ROAA (YTD AVG)	NPA's Total Assets	Reserves/ NPL's	Total Expense/Avg Assets	Total Revenue/FTE
Peer Group Average	$5,128	3%	7.94%	0.90%	1.26%	117.09%	2.80%	$ 221
Peer Group Median	$4,982	1%	8.77%	0.92%	1.00%	96.91%	2.89%	$ 213
Customers Bancorp, Inc.	$6,825	19%	10.39%	0.78%	0.45%	289.50%	1.76%	$ 420

The guiding principle of our compensation philosophy is that the compensation of executive officers should be based primarily on the financial performance of the Company, and partially on individual performance.

Customers Bancorp, Inc. Compensation Philosophy

Team Members are our most important resource. — This is an essential Core Value for us at Customers Bancorp, Inc., and it is our touchstone in determining fair and responsible compensation programs. Reflecting our Vision, Mission, Values, and Culture, our financial performance, and the economic conditions of our marketplace; our philosophy is to compensate all Team Members at a level sufficient to attract, motivate, and retain the talent we need to achieve the short-term and long-term goals of the business.

Philosophy built on six core compensation principles

In determining compensation levels, we consider the key drivers to be:

1. *We will not create incentives that foster inappropriate risk nor pay excessive compensation.* All compensation elements comply with appropriate regulations and sound compensation practices, which neither pay excessive compensation nor encourage inappropriate risk-taking.

2. *Fairness is used in determining pay levels.* Fairness is vital in all compensation actions. Customers Bancorp, Inc. does not discriminate on the basis of race, gender, religion, national origin, veteran status, handicap, or sexual orientation in determining pay levels. Demonstrated performance, skills, commitment and results determine pay levels.
3. *We Pay for Performance.* Our philosophy is largely performance-based. For Team Members in similar positions, we strive to award our strongest performers the most pay. Our incentive plans are carefully designed to drive improved individual and business performance.
4. *Level of impact on the Corporation.* Not all positions are created equal. The job structure assists us in providing internal equity among positions and ensures that we can maintain fairness in our compensation practices across divisions within the Bank.

5. *We pay "at market."* The ***market*** sets the framework for opportunity, and ***achievement*** drives the payouts. Our philosophy is to provide market competitive compensation.
6. *Our ability to pay drives the programs.* Profitability is a key driver in determining compensation opportunity. We ensure that our plans provide an appropriate return to the Bank, in addition to appropriately compensating successful performance.

While this "pay-for-performance" philosophy requires the Compensation Committee to first consider our profitability, the Compensation Committee does not intend to reward unnecessary or excessive risk taking. These principles are reflected in the specific elements of the compensation program, particularly the bonus and long-term equity income programs, as described below.

Role of the Compensation Committee

The Compensation Committee assists the Board of Directors in discharging its responsibilities regarding our compensation and benefit plans and practices. Authority granted to the Compensation Committee is established by the Board of Directors and also set forth in the Charter of the Compensation Committee. In 2014, the Compensation Committee strongly considered the recommendations of the Chief Executive Officer regarding the other named executive officers. The recommendations of the Compensation Committee were presented for discussion and final approval at meetings of the full Board of Directors.

Specific Elements of the Compensation Program

Described below are the key elements of our compensation program for the named executive officers.

Salary

We believe that a key objective of the salary structure is to maintain reasonable "fixed" compensation costs, while taking into account the performance of the named executive officers. Base salaries are reviewed annually by the Compensation Committee to determine if any base pay changes should be made for the named executive officers. Base pay changes, if any, are normally determined after considering the executive's current base pay position relative to the peer group as reflected in the base salaries Report, our performance, the individual's contribution to that performance for the prior year, the national and regional economic conditions, their effect upon us and how the executive has dealt with them within his or her area of responsibility. In February 2014, the Compensation Committee reviewed the Report and, based on the recommendation of the Consultant, determined to increase the 2014 base salaries of the named executive officers, and not to increase the base salaries of the named executive officers in 2015, which decision was ratified by the Board of Directors and is disclosed in the Summary Compensation Table for 2014. The Company's salaries were generally near or below the median salary for the peer group for their position. In making this decision to increase salaries for 2014, the Compensation Committee considered the strong performance of Customers Bank, including strong growth in assets, growth in earnings, and a high quality balance sheet, along with the Chief Executive Officer's leadership in driving this performance to award Salary and Bonus opportunities for the named executive officers in 2014. In February 2015 the Compensation Committee reviewed the company strategies for 2015 and decided to hold base salaries for the named executives constant for 2015 and to rely on bonus opportunities to reward performance.

Bonuses

Bonuses are designed to motivate executives by rewarding performance. For all of the named executive officers other than Mr. Hedde, bonuses for 2014 were determined at the discretion of the Compensation Committee, which considered our financial performance, including strong growth in assets, loans, customer base and return on equity, along with the recommendations of the Chief Executive Officer with regard to the other named executive officers. The decision of the Compensation Committee for 2014 bonuses was ratified by our Board of Directors. Based on these

considerations, in February 2014 the Compensation Committee reviewed the Report and determined to pay a bonus to these named executive officers that was near the median bonus of the peer group for their position, which decision was ratified by the Board. The Chief Executive Officer also recommended bonuses for the other executive officers, which was based on their respective contributions to the performance of the areas for which they are responsible. The amount of these cash bonuses for 2014 is disclosed in the footnotes to the “Bonus” column of the Summary Compensation Table for each of the named executive officers. The bonus award was paid 75% in cash and 25% in restricted stock units that vest on the third anniversary of the award date. The three year vesting restricted stock units is used as a compensation tool to incent managers to think like shareholders and help ensure longer-term stability of Executives with the Bank.

The 2014 bonus for Mr. Hedde is based on a bonus pool, which is a percentage of the net profit of the mortgage warehouse division, which bonus pool is to be allocated among the employees of this division. Mr. Hedde’s share of this bonus pool was determined by discussion between Mr. Hedde and the Chief Executive Officer in 2014 following the determination of the amount of the bonus pool, which amount was presented to the Compensation Committee as a recommendation from the Chief Executive Officer, and was also

ratified by the Board. This bonus was paid 75% in cash and 25% in restricted stock units that vest on the third anniversary of the date of the award. The restricted stock portion was implemented to encourage a long-term view for the operation of this division.

The named executive officers were also given the opportunity to participate in our Bonus Recognition and Retention Plan, where they can defer the receipt of a portion of their cash bonus to receive restricted stock units in lieu of cash, which restricted stock units will vest if the executive officer continues to be employed for five years after the date of the bonus award. See "Bonus Recognition and Retention Plan" for a description of this plan, along with the footnotes to the Summary Compensation Table for a description of the deferrals made by the named executive officers under this plan for their 2014 bonuses. These awards of stock units are subject to forfeiture if the executive does not remain employed over the five-year vesting period, which serves to incentivize and retain executives.

Long-Term Equity Incentive Compensation

Long-term incentive compensation is intended to motivate and retain executives and reward them based on long-term company performance. The Compensation Committee believes that equity- based incentive arrangements are among the most effective means available to the Company of aligning the interests of executives with the objectives of shareholders generally, and of building their long-term commitment to the organization. Our shareholders have approved the Management Stock Purchase Plan, the 2010 Stock Option Plan, the Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan, and the Bonus Recognition and Retention Program (referred to collectively as "equity compensation programs").

Our equity compensation programs permit the Compensation Committee to grant stock options, restricted stock, and other types of awards on a discretionary basis, subject to ratification by the Board of Directors. Upon determination of our performance for the prior fiscal year, in February of each year the Compensation Committee assesses if it will grant long-term equity awards, although it may grant awards at any time of the year in its discretion for new hires, outstanding performance or otherwise. Options are granted to reward the executive for transactions to increase the value of the Company, and the structure of these options also serves to retain and incentivize the executive due to the five year vesting of these options.

Perquisites, Post Retirement and Other Elements of Compensation for Executive Officers

In order to attract and retain qualified executives, we provide executives with a variety of benefits and perquisites, consisting primarily of retirement benefits through a 401(k) plan, executive life insurance, and the use of automobiles. Details of the values of these benefits and perquisites that were paid to the named executive officers in 2014 may be found in the footnotes and narratives in the Summary Compensation Table.

Employment and Other Agreements

The Compensation Committee believes that it is in the best interest of the Company to promote stability and continuity of senior management. The Compensation Committee seeks to obtain this goal by providing reasonable assurance to certain of its senior executives so they are not distracted from their duties, especially in light of the uncertainty caused by adverse market conditions and the continued consolidation in the banking industry. These employment agreements provide for severance to be paid to the executives in connection with a termination of employment, including severance following a change of control. A summary of the estimated payments to be made as a result of these severance and change of control provisions are described under "Potential Payments upon a Change of Control". All of these agreements that provide for severance payments following termination in connection with a change in control are structured as "double triggers" based on the Compensation Committee's determination that such payments should only be made if we terminate the employee in connection with a change in control. For the foregoing reasons, we also adopted a Supplemental Executive Retirement Plan for Mr. Sidhu. See "Employee Benefits –

Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer" and the "Pension Benefits" table for more information on this plan for Mr. Sidhu.

Employee Benefits

We provide health, life, vision and dental insurance, and matching 401(k) contributions, on terms similar to those provided to employees generally. See "Insurance" and "401(k) Retirement Savings and Profit Sharing Plan" below. We also provide Messrs. Sidhu and Ehst with automobiles they primarily use for business purposes, and provide car allowances for Messrs. Wahlman and Issa. We provide country club memberships for Messrs. Sidhu and Wahlman, and reimbursed relocation expenses for Mr. Wahlman.

401(k) Retirement Savings and Profit Sharing Plan

Customers Bank has a 401(k) profit sharing plan whereby eligible employees may contribute up to 15% of their salary to such plan. Customers Bank provides a matching contribution equal to 50% of the first 6% of the contribution made by the employee. Employer contributions for the year ended December 31, 2014 were approximately $973,000.

Table of Contents

Insurance

All eligible full-time employees of Customers Bank are covered as a group by basic hospitalization, major medical, long-term disability, term life and prescription drug plans. Customers Bank pays the total cost of such plans for employees with the exception of the major medical and the prescription drug plan, in which cost sharing and co-payments are required by the employees.

Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer

Pursuant to Mr. Sidhu's employment agreement, we established a supplemental executive retirement plan ("SERP") for Mr. Sidhu in 2010. The SERP is a deferred compensation plan whereby we created a reserve account on our books for Mr. Sidhu. During the third quarter of 2010, we credited an amount to this account that was sufficient to create a hypothetical fund that would provide payments of $300,000 per year for fifteen years commencing on Mr. Sidhu's sixty-fifth birthday, assuming a rate of return of 7% per year, compounded annually. Additionally, we will credit the account with any gains or losses as if we had deposited the amounts in certain investment funds selected by Mr. Sidhu. Mr. Sidhu's is now fully vested in the SERP.

Mr. Sidhu's entire interest in the account will be paid to him in fifteen annual installments beginning generally upon the later of (a) his separation from service with us, or (b) his sixty-fifth birthday. Any portion of Mr. Sidhu's interest in the account remaining upon his death will be paid to his beneficiary in a single lump sum. In the event of Mr. Sidhu's death prior to the later of (a) his separation from service with us, or (b) his sixty-fifth birthday, $3.0 million will be paid to his beneficiary in a single lump sum in lieu of the installment payments described above.

These obligations under the SERP will be general unsecured obligations by us to pay money in the future. Mr. Sidhu will have no rights to any assets or investments held by us to meet our obligations under the SERP, except as a general creditor of us.

Consideration of Risk

Our compensation methods are discretionary and balance short and long-term goals for our executive officers. The Compensation Committee strives to provide strong incentives to manage us for the long-term, while avoiding excessive risk taking in the short term. Goals and objectives reflect a fair mix of quantitative and qualitative factors to avoid excessive reliance on a single performance measure. As a matter of best practice, beginning in 2010, the Compensation Committee began to annually review the relationship between the risk management practices and the incentive compensation provided to the named executive officers to confirm that the incentive compensation does not encourage unnecessary and excessive risk.

Risk Management Checks and Balances

The Compensation Committee believes that the design and governance of our executive compensation program are consistent with best practices in risk management. The design of the executive compensation program supports our risk management goals through an interlocking set of checks and balances.

- Rather than determining incentive compensation awards based on a single metric, the Committee applies its informed judgment taking into account factors such as quality and sustainability of earnings, successful implementation of strategic initiatives and adherence to risk and compliance policies and our other core values.
- To further ensure that executive officers are focused on long-term performance, a significant portion of our incentive awards (including bonuses paid in stock) are provided as long-term equity awards that do not become earned and paid until three to five years after the grant date.

- Use of equity awards aligns executive officers' interests with the interests of shareholders, and their significant stock ownership further enhances this alignment.

The compensation program encompasses the following elements:

- A Compensation Committee Charter and an over Compensation Philosophy that is reviewed annually;
- A structure in place to align long term incentives for executives and team members with shareholder interests;
- Specific performance measures that directly relate to shareholder return and support the company strategies drive the compensation levels including:
  - Return On Equity
  - Return on Assets

24

Table of Contents

  - o Growth in earnings
  - o Quality of assets (credit quality)
  - o Expenses relative to total assets
  - o Results compared to Profit Plan and company strategic plan
- · Peer group for comparison of executive compensation includes high performance regional banks in Mid Atlantic and Northeast with assets between $3 B and $8 B.
- · Employment /Change in Control Agreements are limited to top management.
- · Claw back agreements are used for all bonus payments.

Together, these features of the executive compensation program are intended to:

- · Align management decision making with creating long-term, sustainable value for shareholders;
- · Ensure that compensation opportunities do not encourage excessive risk taking; and
- · Provide appropriate levels of realized rewards over time.

Compliance with Section 409A of the Internal Revenue Code

The executive compensation arrangements are intended to be maintained in conformity with the requirements of Section 409A of the Internal Revenue Code, which imposes certain restrictions on deferred compensation arrangements and tax penalties on the affected employees if their deferred compensation arrangements do not comply with those restrictions.

Compensation Committee Report

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based upon this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company’s Annual Report on Form 10-K and this Proxy Statement.

Compensation Committee:

Steven J. Zuckerman, Chair

Daniel K. Rothermel

Table of Contents

SUMMARY COMPENSATION TABLE [1]

The table below sets forth the compensation for each of the named executive officers for the fiscal years ended December 31, 2014, 2013 and 2012.

	Year	Salary ($)	Bonus ($) [2]	Stock Awards ($) [8]	Option Awards ($) [9]	All Other Compensation ($) [10]	Total ($) [2]
Jay S. Sidhu	2014	600,000	825,000(3)	62,500	—	10,218	1,497,718
Chairman & CEO	2013	500,000	687,500(3)	—	1,957,971	16,262	3,161,733
	2012	500,000	767,307(3)	2,666,661	2,175,332	24,593	6,133,893
Richard A. Ehst	2014	400,000	212,500(4)	32,812	—	7,481	652,793
President & COO	2013	350,000	185,938(4)	—	293,697	5,783	835,418
	2012	320,000	234,736(4)	666,666	326,299	10,000	1,557,701
Robert E. Wahlman	2014	325,000	240,625(5)	19,750	97,680	102,437	785,492
Executive Vice President & CFO	2013	128,588	59,250 (5)	—	75,012	9,208	272,058
Glenn A. Hedde	2014	240,000	400,000(6)	60,000	—	5,587	705,587
Executive Vice President &	2013	210,000	240,000(6)	409,505	—	6,300	865,805
President of Banking to Mortgage Companies	2012	200,000	273,000(6)	538,423	—	5,954	1,017,377
Steven J. Issa	2014	300,000	220,000(7)	92,980	24,420	19,800	657,200
Executive Vice President/ Chief Lending Officer							

(1) The following columns are intentionally omitted from this table: Non-Equity Incentive Plan Compensation, Change in Pension Value, and Nonqualified Deferred Compensation Earnings.

(2) Amounts in 2012 have been revised to reflect full bonuses paid to the executives for the respective periods including cash paid and the grant date fair value of any stock and related Company match granted in lieu of cash at the election of the executive, as calculated in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718.

(3) Mr. Sidhu earned a bonus of $600,000 for 2014. Of this amount, he received $225,000 in cash, $75,000 in restricted stock units, and elected to defer $300,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five year vesting period, he will receive his deferred bonus, along with a company match of $300,000 ($600,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Sidhu does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Sidhu earned a bonus of $500,000 for 2013. Of this amount, he received $187,500 in cash, $62,500 in restricted stock units, and elected to defer $250,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $250,000 ($500,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Sidhu does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Sidhu earned a bonus of $500,000 for 2012. Of this amount, he received $250,000 in cash and elected to defer $250,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting

period, he will receive his deferred bonus, along with a Company match of $250,000 ($500,000 in total), in the form of 34,722 shares of Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those 34,722 shares. If Mr. Sidhu does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

(4) Mr. Ehst earned a bonus of $200,000 for 2014. Of this amount, he received $112,500 in cash, $37,500 in restricted stock units, and elected to defer $50,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $50,000 ($100,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Ehst does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Ehst earned a bonus of $175,000 for 2013. Of this amount, he received $98,438 in cash, $32,812 in restricted stock units, and elected to defer $43,750 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $43,750 ($87,500 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If

Table of Contents

Mr. Ehst does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Ehst earned a bonus of $180,000 for 2012. Of this amount, he received $135,000 in cash and elected to defer $45,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $45,000 ($90,000 in total), in the form of 6,250 shares of Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those 6,250 shares. If Mr. Ehst does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

(5) Mr. Wahlman earned a bonus of $175,000 for 2014. Of this amount, he received $65,625 in cash, $21,875 in restricted stock units, and elected to defer $87,500 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $87,500 ($175,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Wahlman does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Wahlman earned a bonus of $79,000 for 2013. Of this amount, he received $59,250 in cash and $19,750 in restricted stock units.

(6) Mr. Hedde earned a bonus of $320,000 for 2014. Of this amount, he received $144,000 in cash, $48,000 in restricted stock units, and elected to defer $128,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $128,000 ($256,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Hedde does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Hedde earned a bonus of $200,000 for 2013. Of this amount, he received $40,000 in cash, $60,000 in restricted stock units, and elected to defer $100,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $100,000 ($200,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Hedde does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

Mr. Hedde earned a bonus of $682,505 for 2012. Of this amount, he received $273,000 in cash and $409,505 in restricted stock units. These restricted stock units will become 100% vested on the third anniversary of the date of grant. The award of the restricted stock units occurred in March 2013 and is considered 2013 compensation.

(7) Mr. Issa earned a bonus of $200,000 for 2014. Of this amount, he received $120,000 in cash, $30,000 in restricted stock units and elected to defer $50,000 under the BRRP in the form of an equivalent number of restricted stock units. After a five-year vesting period, he will receive his deferred bonus, along with a Company match of $50,000 ($100,000 in total), all in the form of shares of our Voting Common Stock plus any shares resulting from the deemed reinvestment of dividends on those shares. If Mr. Issa does not remain employed by us during the five-year vesting period, he will forfeit the right to receive those shares.

(8) Represents the aggregate grant date fair value, calculated in accordance with FASB ASC Topic 718, of the stock awards described in footnotes 3-7 above. The grant date fair values have been determined based on the assumptions and methodologies set forth in our 2014 financial statements (**NOTE 14 - SHARE-BASED COMPENSATION PLANS**).

(9) Represents the aggregate grant date fair value, as calculated in accordance with FASB ASC Topic 718, of option awards. The grant date fair values have been determined based on the assumptions and methodologies set forth in our 2014 financial statements (**NOTE 14 - SHARE-BASED COMPENSATION PLANS**).

(10) The amounts listed in this column include matching 401(k) contributions paid under our 401(k) Retirement Savings and Profit Sharing Plan for each of Messrs. Sidhu, Wahlman, Issa, and Hedde; car allowance, country club membership, and relocation expenses for Mr. Wahlman; car allowance for Mr. Issa; and a country club membership for Mr. Sidhu and Mr. Wahlman. We provide Messrs. Sidhu and Ehst with automobiles which they primarily use for business purposes. All Other Compensation for Messrs. Sidhu and Ehst also includes the value attributable to their personal use of these automobiles in 2014, 2013, and 2012 (Mr. Sidhu only).

Table of Contents

GRANTS OF PLAN-BASED AWARDS [1]

The following table sets forth certain information regarding awards granted to each of our named executive officers with respect to 2014:

Name	Grant Date	All other stock awards: Number of shares of Common Stock (#)	All other option awards: Number of shares of Common Stock underlying options (#)	Exercise or base price of option awards ($/Share)	Grant date fair value of stock and option awards ($)(2)
Jay S. Sidhu	02/20/2014	31,861	—	—	562,347
Richard A. Ehst	02/20/2014	6,816	—	—	120,302
Robert E. Wahlman	02/20/2014	1,119	—	—	19,750
	02/20/2014	—	22,000	17.65	97,680
Glenn A. Hedde	02/20/2014	14,727	—	—	259,932
Steven J. Issa	02/20/2014	5,268	—	—	92,980
	02/20/2014	—	5,500	17.65	24,420

(1) The following columns are intentionally omitted from this table: Estimated Future Payouts under Non-Equity Incentive Plan Awards, and Estimated Future Payouts under Equity Incentive Plan Awards.

(2) Represents the grant date fair value, as calculated in accordance with FASB ASC Topic 718, of these option or stock awards. The grant date fair value has been determined based on the assumptions and methodologies set forth in the consolidated financial statements included in NOTE 14-SHARE-BASED COMPENSATION PLANS of our Annual Report on Form 10-K for the year ended December 31, 2014.

Amended and Restated 2004 Incentive Equity and Deferred Compensation Plan

At our annual meeting in 2012, our shareholders approved the amendment and restatement of our 2004 Plan, primarily to reflect changes effectuated by the Reorganization and increase the number of shares authorized to be issued pursuant to grants under the 2004 Plan. The purpose of the 2004 Plan is to promote the success and enhance our value by linking the personal interests of the members of the board of directors and our employees, officers and executives to those of our shareholders and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to our shareholders. The 2004 Plan is further intended to provide us flexibility to motivate, attract and retain the services of members of our board of directors, employees, officers and executives.

The 2004 Plan is administered by the Compensation Committee of the board of directors. It provides for the grant of options, some or all of which may be structured to qualify as incentive stock options under Section 422 of the Code (“ISOs”) if granted to employees, and for the grant of stock appreciation rights, restricted stock and unrestricted stock up to a total of 2,750,000 shares of common stock. As of December 31, 2014, 1,646,661 shares were available for grant under the 2004 Plan. Unless sooner terminated by the board, the 2004 Plan will expire on September 6, 2021, which is ten (10) years from the date the 2004 Plan was last approved by our shareholders.

Amended and Restated 2010 Stock Option Plan

In December 2010, our shareholders approved the 2010 Stock Option Plan, which was amended and restated in March 2012 by our Board of Directors primarily to reflect changes effectuated by the Reorganization. The 2010 Stock Option Plan provides for the grant of stock options to our management personnel, other employees and non-employee members of the Board of Directors. The purpose of the 2010 Stock Option Plan is to promote our success and enhance our value by linking the personal interest of our employees, officers, executives and non-employee directors to those of our shareholders and by providing those individuals with an incentive for outstanding performance in order to

generate superior returns to shareholders. The 2010 Stock Option Plan provides flexibility for us to motivate, attract, and retain the services of our employees, officers, executives and non-employee directors upon whose judgment,

Table of Contents
interest and special effort the successful conduct of our operations largely depend. The options can take the form of either tax-qualified ISOs or non-qualified stock options ("NQOs"), although only NQOs may be granted to non-employee directors.

The 2010 Stock Option Plan consists of a pool of 3,666,667 shares of our Voting Common Stock and Class B Non-Voting Common Stock. At December 31, 2014, 863,456 shares were available for grant under this plan. The 2010 Stock Option Plan is administered by the Compensation Committee of the Board of Directors or, in certain cases, by the full Board of Directors. The maximum number of shares underlying options granted to any single participant during a fiscal year shall be 2,444,445 shares of common stock. All employees are potentially eligible to receive options under the 2010 Stock Option Plan. In making determinations regarding the potential eligibility of any employee, the Compensation Committee may take into account the nature of the services rendered by the employee, his or her present and potential contributions to our success and such other factors as the Compensation Committee in its discretion deems relevant.

The Compensation Committee is authorized to grant stock options to participants subject to the following terms and conditions: (1) the exercise price per share of an option must not be less than the fair market value of one share at the time the option is granted, and the term of an option must not be longer than ten (10) years from the date of grant; and (2) in the case of a participant who owns stock representing more than 10% of the total combined voting power of us at the time of the grant of an option to that participant, the option cannot qualify as an ISO unless the exercise price is at least 110% of the fair market value of the stock at the time of grant and the term is no longer than five years from the date of grant.

Unless sooner terminated by the Board, the 2010 Stock Option Plan will expire ten (10) years from the date the 2010 Stock Option Plan was approved by our shareholders, which was December 9, 2010. The termination of the 2010 Stock Option Plan must not affect any option that is outstanding on the termination date without the consent of the participant. Offers granted under the 2010 Stock Option Plan are, by their terms, not transferable other than by will or laws of descent and distribution. No right or interest of a participant in any offer may be pledged, encumbered, or hypothecated to or in favor of any party other than us, or be subject to any lien, obligation, or liability of that participant to any other party other than us; provided, however, that the foregoing must not be deemed to imply any obligation of ours to lend against or accept a lien or pledge of any offer for any reason.

Bonus Recognition and Retention Program

In December 2010, our shareholders approved the BRRP, which was amended and restated in March 2012 by our Board of Directors primarily to reflect changes effectuated by the Reorganization. The BRRP provides specified benefits to a select group of management and highly compensated employees who contribute materially to our continued growth, development and future business success that are eligible under the BRRP. Participation in the BRRP is limited to a select group of management and highly compensated employees, as determined by the Compensation Committee in its sole discretion. From that group, the Committee selects, in its sole discretion, the employees who are eligible to participate in the BRRP, which always includes our Chief Executive Officer.

As a condition of participation, each selected employee must annually complete and return to the Committee (or its designee) the forms the Committee may prescribe, including an annual deferral election form. Each election made by a participant to defer receipt of a portion of his or her bonus for a given calendar year must be filed no later than December 31 prior to the calendar year with respect to which the relevant bonus may be earned; provided, however, in the event an employee is hired during a plan year and is designated as being eligible to participate for that year, the employee may commence participation for that year by filing a deferral election within 30 days of employment. Each eligible employee must file a new deferral election for each year with respect to which he or she desires to defer receipt of a portion of a bonus.

A participant may elect to defer receipt of not less than 25%, nor more than 50%, of his or her bonus payable with respect to each year of participation. Shares of Voting Common Stock having a value equal to the portion of the bonus deferred by a participant will be allocated to an annual deferral account (the “Annual Deferral Account”) established by us for the year of deferral. On the same day that the shares of common stock attributable to a deferred bonus are allocated to the Annual Deferral Account, a matching amount equal to an identical number of shares of common stock shall be allocated to the Annual Deferral Account. The Annual Deferral Account shall be increased by that number of shares of common stock having a value equal to the amount of any cash dividend payable with respect to the number of shares of common stock allocated to the Annual Deferral Account. The BRRP is a formula based plan that does not provide for a maximum number of shares to be issued, but it is limited by the amount of the cash bonuses awarded annually to those persons selected to participate.

In the event a participant files a deferral election and subsequently terminates as an employee prior to the date bonuses are paid, if (a) he or she is entitled to a bonus notwithstanding termination and (b) the termination of employment is related to death, disability, or is involuntary or related to a change in control, then the bonus and the related matching amount shall be distributed to the individual or his or her beneficiary in cash or invested and so distributed in common stock, at the Compensation Committee’s election, within 60 days following the date that year’s bonuses are paid.

Table of Contents

A participant becomes 100% vested in an Annual Deferral Account on the fifth anniversary date of the initial funding of the account, provided he or she remains continuously employed by us from the date of funding to the anniversary date. Vesting is accelerated in the event of involuntary termination other than for cause, retirement at or after age 65, death, termination on account of disability, or a change in control of the Company.

As of December 31, 2014 we have issued restricted stock units for 170,429 shares of Voting Common Stock under BRRP.

2012 Restricted Stock Rewards Program

Due to our significant growth and evolution as a bank since 2009, including increasing assets to over $3 billion and significantly increasing our equity base, in February 2012 the Compensation Committee recommended and the Board of Directors approved a restricted stock reward program that provided for the grant of restricted stock units to certain directors and senior executives of Customers Bancorp and Customers Bank. Pursuant to the program, restricted stock units for 203,707 shares of our Voting Common Stock and 232,804 shares of our Class B Non-Voting Common Stock were granted on February 16, 2012 pursuant to the 2004 Plan. Of this amount, our named executive officers received restricted stock units for 139,686 shares of Voting Common Stock and 232,804 shares of Class B Non-Voting Common Stock in the aggregate and our non-employee directors received 17,463 shares of Voting Common Stock in the aggregate. One requirement for vesting is that the recipient of the restricted stock units remains an employee or director of ours, through December 31, 2016. The restricted stock units held by an employee or director are forfeited if he or she ceases to be an employee or director prior to that date. The second vesting requirement for each award (both must be met to vest) is that our Voting Common Stock trades at a price greater than $17.18 per share (adjusted for any stock splits or stock dividends) for at least 5 consecutive trading days during the five year period ending December 31, 2016. If the restricted stock units vest, the recipient will receive shares of our common stock on December 31, 2016. However, upon a change in control of us resulting in any one shareholder owning more than 24.9% of the outstanding stock of Customers Bancorp prior to December 31, 2016, all restricted stock units held by employees and directors automatically vest and they will receive shares of our common stock at that time.

Officer Employment Agreements

On March 26, 2012, we entered into an amended and restated employment agreement with Mr. Sidhu as Chairman and CEO of Customers Bank. Under the terms of the agreement Mr. Sidhu will receive a minimum base salary plus a performance-based incentive bonus and a monthly car allowance. The term of the agreement is annually extended to another year unless Mr. Sidhu or we give notice to the contrary. Mr. Sidhu will also be entitled to cash or equity incentive compensation up to the amount of his base salary under an executive incentive plan to be approved by the Board of Directors.

Under the employment agreement, we also agreed that our Board of Directors will develop and implement a nonqualified retirement income plan designed to provide Mr. Sidhu with a retirement benefit, targeted at $300,000 per year (depending on performance of the investments in the informal funding vehicle) for 15 years commencing upon his retirement at or after age 65, subject to his ability to qualify for a variable life insurance policy to be owned by us to fund the plan. The Board of Directors reviewed the plan at the end of the fourth year of his employment and determined it may be appropriate to increase the target benefit amount at some future date. Under the employment agreement, Mr. Sidhu was to become vested in this retirement benefit after seven years of continuous service with us, or upon his termination of employment under circumstances that would result in our obligation to pay him severance compensation. Ultimately, the plan (which was developed and approved by the Board of Directors) provided for funding towards a target benefit of $300,000 per year, and for immediate vesting upon the effective date of the plan. See discussion of the “Nonqualified Deferred Compensation” on page 34 of this proxy statement.

As of March 26, 2012, we also entered into amended and restated employment agreements with Mr. Ehst. With respect to Mr. Ehst's employment agreement, the term of the agreement is annually extended for another year unless Mr. Ehst or we give notice to the contrary. Mr. Ehst receives a minimum base salary, plus incentive compensation in cash or equity or both and in such amounts as determined by the Board of Directors in accordance with incentive programs developed for him. Mr. Ehst's employment agreement provides that, for every issuance of shares made by us in connection with an acquisition or a raise of capital (i) up to $400 million, we must grant Mr. Ehst options to purchase up to 1.5% of the shares issued in such issuance; (ii) from $401 million to $749 million, we must grant Mr. Ehst options to purchase up to 1% of the shares issued in such issuance; and (iii) above $750 million of equity, we must grant Mr. Ehst options to purchase up to 0.5% of the shares issued in such issuance.

Each of Messrs. Sidhu and Ehst will be entitled to severance compensation under the agreement if he terminates his employment for "Good Reason" (as defined in their respective employment agreements), if his employment is terminated by us other than for "Cause" (as defined in their respective employment agreements) during the employment term or on expiration of the employment term. If a "Change in Control" (as defined in their respective employment agreements) has not occurred within twelve months before termination of employment, then: (1) he will receive the sum of his then current base salary plus the average of his last three years' annual cash bonuses, for the greater of (a) three years in the case of Mr. Sidhu and two years in the cases of Mr. Ehst, or (b) the period of time remaining in his employment term, generally payable in equal installments on his normal pay dates, subject to normal tax deductions and withholding; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of

Table of Contents

payment; and (4) we will continue to provide health insurance (including dental if applicable) and any life or disability insurance benefits ("health benefits") for the shorter of the period on which his cash severance compensation is measured or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law. If a Change in Control shall have occurred within twelve months before termination of his employment, then: (1) he will receive cash equal to three times the sum of his then current base salary plus the average of his annual cash bonuses for the immediately preceding three years, payable in a lump sum; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; (4) we shall continue to provide health benefits for the shorter of three years or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law; and (5) if applicable, reimbursement of any "parachute payment" excise tax under Section 4999 of the Code, grossed up to include any additional taxes payable on that benefit.

On August 5, 2013, we entered into an employment agreement with Mr. Wahlman as Chief Financial Officer of Customers Bank. With respect to Mr. Wahlman's employment agreement, the term of the agreement is annually extended for another year unless Mr. Wahlman or we give notice to the contrary. Mr. Wahlman receives a minimum base salary, plus incentive compensation in cash or equity or both and in such amounts as determined by the Board of Directors in accordance with incentive programs developed for him. In addition, the Bank shall reimburse the Executive for reasonable moving (relocation) expenses. Mr. Wahlman will be entitled to severance compensation under the agreement if he terminates his employment for "Good Reason" (as defined in the employment agreement), if his employment is terminated by us other than for "Cause" (as defined in the employment agreement) during the employment term or on expiration of the employment term. If a "Change in Control" (as defined in the employment agreement) has not occurred within twelve months before termination of employment, then: (1) he will receive the sum of his then current base salary plus the average of his last three years' annual cash bonuses, for the greater of (a) two years or (b) the period of time remaining in his employment term, generally payable in equal installments on his normal pay dates, subject to normal tax deductions and withholding; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; and (4) we will continue to provide health insurance (including dental if applicable) and any life or disability insurance benefits ("health benefits") for the shorter of the period on which his cash severance compensation is measured or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law. If a Change in Control shall have occurred within twelve months before termination of his employment, then: (1) he will receive cash equal to three times the sum of his then current base salary plus the average of his annual cash bonuses for the immediately preceding three years, payable in a lump sum; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; (4) we shall continue to provide health benefits for the shorter of three years or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law; and (5) if applicable, reimbursement of any "parachute payment" excise tax under Section 4999 of the Code, grossed up to include any additional taxes payable on that benefit.

On March 1, 2014, we entered into an employment agreement with Mr. Issa as President of New England Commercial Banking Group of Customers Bank. With respect to Mr. Issa's employment agreement, the term of the agreement is annually extended for another year unless Mr. Issa or we give notice to the contrary. Mr. Issa receives a minimum base salary, plus incentive compensation in cash or equity or both and in such amounts as determined by the Board of Directors in accordance with incentive programs developed for him. Mr. Issa will be entitled to severance compensation under the agreement if he terminates his employment for "Good Reason" (as defined in the employment agreement), if his employment is terminated by us other than for "Cause" (as defined in the employment agreement) during the employment term or on expiration of the employment term. If a "Change in Control" (as defined in the employment agreement) has not occurred within twelve months before termination of employment, then: (1) he will receive the sum of his then current base salary plus the average of his last three years' annual cash bonuses, for the

greater of (a) three years or (b) the period of time remaining in his employment term, generally payable in equal installments on his normal pay dates, subject to normal tax deductions and withholding; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; and (4) we will continue to provide health insurance (including dental if applicable) and any life or disability insurance benefits ("health benefits") for the shorter of the period on which his cash severance compensation is measured or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law. If a Change in Control shall have occurred within twelve months before termination of his employment, then: (1) he will receive cash equal to three times the sum of his then current base salary plus the average of his annual cash bonuses for the immediately preceding three years, payable in a lump sum; (2) any unvested equity awards he has received will vest in full; (3) he will be entitled to an allocable fraction of any cash bonus that would have been payable to him for the current year had he remained employed through the date of payment; (4) we shall continue to provide health benefits for the shorter of three years or the maximum period we are then permitted to extend his benefit under the applicable plan or policy or applicable law; and (5) if applicable, reimbursement of any "parachute payment" excise tax under Section 4999 of the Code, grossed up to include any additional taxes payable on that benefit.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END [1]

The following table sets forth information on outstanding warrants, option awards, and stock awards held by the named executive officers at December 31, 2014, including the number of shares underlying each stock option and warrant, the exercise price and the expiration date of each outstanding option and warrant, and the number of shares and market value of stock awards.

	Option Awards				**Stock Awards**	
Name & Principal Position	**Number of Securities Underlying Options Exercisable (#)**	**Number of Securities Underlying Options Unexerciseable (#)**	**Option Exercise Price ($/share)**	**Option Expiration Date**	**Number of shares or units of stock that have not vested (#)**	**Market value of shares or units of stock that have not vested ($)**
Jay S. Sidhu	---	493,629 [2]	8.86	04/06/2020	---	---
Chairman and	---	12,834 [3]	9.55	07/14/2020	---	---
Chief Executive Officer	---	81,864 [4]	10.91	12/28/2020	---	---
	---	84,105 [5]	10.91	01/31/2021	---	---
	---	36,869 [6]	10.91	02/28/2021	---	---
	---	29,514 [7]	10.91	03/07/2021	---	---
	---	68,639 [8]	12.00	09/17/2021	---	---
	---	108,334 [9]	12.00	09/30/2021	---	---
	---	782,300 [10]	12.73	09/20/2022	---	---
	---	679,701 [11]	15.23	05/22/2023	---	---
	---	---	---	---	26,190 [13]	509,657
	---	---	---	---	232,804 [15]	4,530,366
	---	---	---	---	38,194 [16]	743,255
	---	---	---	---	3,540 [19]	68,888
	---	---	---	---	28,321 [20]	551,127
Richard A. Ehst	---	74,044 [2]	8.86	04/06/2020	---	---
President and	---	1,925 [3]	9.55	07/14/2020	---	---
Chief Operating Officer	---	12,279 [4]	10.91	12/28/2020	---	---
	---	12,616 [5]	10.91	01/31/2021	---	---
	---	5,531 [6]	10.91	02/28/2021	---	---
	---	4,428 [7]	10.91	03/07/2021	---	---
	---	10,296 [8]	12.00	09/17/2021	---	---
	---	16,250 [9]	12.00	09/30/2021	---	---
	---	117,345 [10]	12.73	09/20/2022	---	---
	---	101,956 [11]	15.23	05/22/2023	---	---
	---	---	---	---	4,910 [13]	95,549
	---	---	---	---	58,201 [15]	1,132,591
	---	---	---	---	6,876 [16]	133,807
	---	---	---	---	1,859 [19]	36,176
	---	---	---	---	4,957 [20]	96,463
Robert E. Wahlman	---	22,000 [17]	15.62	08/05/2023	---	---
Executive Vice President and	---	22,000 [21]	17.65	02/20/2024	---	---

Chief Financial Officer	---	---	---	---	1,119	[19] 21,776
Steven J. Issa	---	11,000	[22] 13.62	04/29/2023	---	---
Executive Vice President /	---	5,500	[21] 17.65	02/20/2024	---	---
Chief Lending Officer	---				5,268	[19] 102,515
Glenn A. Hedde	---	3,667	[2] 8.86	04/06/2020	---	---
Executive Vice President and	---	9,167	[12] 10.91	02/17/2021	---	---
President of Banking to	---	---	---	---	19,136	[13] 372,387
Mortgage Companies	---	---	---	---	35,365	[14] 688,203
	---	---	---	---	11,640	[15] 226,514

32

Table of Contents

---	---	---	---	30,151	(18)	586,738
---	---	---	---	3,399	(19)	66,145
---	---	---	---	11,328	(20)	220,443

(1) Except as otherwise noted in a footnote, all awards relate to shares of Voting Common Stock. At December 31, 2014, the closing market price of our Voting Common Stock, as listed on The New York Stock Exchange, was $19.46. The following columns are intentionally omitted from this table: Option Awards: Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options, Stock Awards: Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested, and Stock Awards: Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested.

(2) These stock options vest on the fifth anniversary of the date of grant (April 6, 2015), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $13.30) during the life of the option and subject to accelerated vesting in certain circumstances.

(3) These stock options vest on the fifth anniversary of the date of grant (July 14, 2015), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $14.32) during the life of the option and subject to accelerated vesting in certain circumstances.

(4) These stock options vest on the fifth anniversary of the date of grant (December 28, 2015), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $16.36) during the life of the option and subject to accelerated vesting in certain circumstances.

(5) These stock options vest on the fifth anniversary of the date of grant (January 31, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $16.36) during the life of the option and subject to accelerated vesting in certain circumstances.

(6) These stock options vest on the fifth anniversary of the date of grant (February 28, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $16.36) during the life of the option and subject to accelerated vesting in certain circumstances.

(7) These stock options vest on the fifth anniversary of the date of grant (March 7, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $16.36) during the life of the option and subject to accelerated vesting in certain circumstances.

(8) These stock options vest on the fifth anniversary of the date of grant (September 17, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $18.00) during the life of the option and subject to accelerated vesting in certain circumstances. This grant entitles Mr. Sidhu to purchase 68,639 shares of Class B Non-Voting Common Stock.

(9) These stock options vest on the fifth anniversary of the date of grant (September 30, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $18.00) during the life of the option and subject to accelerated vesting in certain circumstances. This grant entitles Mr. Sidhu to purchase 108,334 shares of Class B Non-Voting Common Stock.

(10) These stock options vest on the fifth anniversary of the date of grant (September 20, 2017), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $19.09) during the life of the option and subject to accelerated vesting in certain circumstances.

(11) These stock options vest on the fifth anniversary of the date of grant (May 22, 2018), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $22.85) during the life of the option and subject to accelerated vesting in certain circumstances.

(12) These stock options vest on the fifth anniversary of the date of grant (February 17, 2016), subject to a condition that the market price of our Voting Common Stock increase by 50% (to $16.36) during the life of the option and subject to accelerated vesting in certain circumstances.

(13) The restricted stock units, issued under the BRRP, vest on the fifth anniversary of the date of grant (February 16, 2017).

(14) The restricted stock units vested on the third anniversary of the date of grant (February 16, 2015).

Table of Contents

(15) The restricted stock units vest on December 31, 2016 subject to a condition that the Bancorp's Voting Common Stock trades at a price greater than $17.18 per share for at least five consecutive trading days during the five-year period ending December 31, 2016 and subject to accelerated vesting in certain circumstances. The restricted stock units issued to Mr. Sidhu are for Class B Non-Voting Common Stock.

(16) The restricted stock units, issued under the BRRP, vest on the fifth anniversary of the date of grant (December 28, 2017).

(17) The stock options vest on the fifth anniversary of the date of grant (August 5, 2018).

(18) The restricted stock units vest on the third anniversary of the date of grant (March 15, 2016).

(19) The restricted stock units vest on the third anniversary of the date of grant (February 20, 2017).

(20) The restricted stock units, issued under the BRRP, vest on the fifth anniversary of the date of grant (February 20, 2019).

(21) The stock options vest on the fifth anniversary of the date of grant (February 20, 2019).

(22) The stock options vest on the fifth anniversary of the grant date (April 29, 2018).

The following Nonqualified Deferred Compensation table summarizes activity during 2014 and the account balance as of December 31, 2014 for our non-qualified defined contribution plans that provide for the deferral of compensation.

NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY ($)		Registrant Contribution in Last FY ($)	Aggregate Earnings (Losses) in Last FY ($)		Aggregate Withdrawals/Distributions ($)	Aggregate Balance at L ast FY
Beginning balance	$	48,853		$	13,026		$
Adoption of new accounting standards							
Total provision for credit losses		7,126			3,428		
Charge-offs[1]		(5,740)			(448)		
Recoveries		532			952		
Transfers[2]		3,207			(3,207)		
Net reclassifications[3]		(13)			98		
Ending balance[4]	$	53,965		$	13,849		$

	As of March 31, 2011		As of December 31, 2010	
Allocation of combined loss reserves:				
Balance at end of each period attributable to:				
Single-family	$	66,240	$	60,163
Multifamily		1,574		1,716
Total	$	67,814	$	61,879

Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	2.29%	2.10%
Multifamily	0.83	0.91
Combined loss reserves as a percentage of:		
Total guaranty book of business	2.20%	2.03%
Total nonperforming loans	32.60	28.81

(1) Includes accrued interest of $386 million and $579 million for the three months ended March 31, 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 $412 million and $903 million as of March 31, 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 several quarters. Our total loss reserves increased in the first quarter of 2011 due to: (1) a decline in home prices and increase in initial charge-off severity during the period, (2) the number of loans that entered a trial modification period during the quarter, (3) a decline in future expected home prices and (4) loans continuing to remain delinquent for an extended period of time. Our provision for credit losses decreased in the first quarter of 2011 compared with the first quarter of 2010, primarily because our total loss reserves increased less in the first quarter of 2011 than in the first quarter of 2010.

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 quarter of 2011, more than half of our total loss reserves is 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 March 31, 2011 than as of March 31, 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 35: 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 March 31, 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 12. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see Note 3, Mortgage Loans.

Table 12: Nonperforming Single-Family and Multifamily Loans

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 141,623	$ 152,756
Troubled debt restructurings on accrual status[1]	66,342	61,907
Total on-balance sheet nonperforming loans	207,965	214,663
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[2]	83	89
Total nonperforming loans	$ 208,048	$ 214,752
Accruing on-balance sheet loans past due 90 days or more[3]	$ 850	$ 896

	For the Three Months Ended March 31, 2011	For The Year Ended December 31, 2010
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[4]	$ 2,827	$ 8,185
Interest income recognized for the period[5]	1,388	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. Includes HomeSaver Advance first-lien loans.

(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 based on stated coupon rate 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)

The shift to foreclosed property expense during the first quarter of 2011 from foreclosed property income during the first quarter of 2010 was primarily due to higher REO inventory as of March 31, 2011 compared with March 31, 2010 and an increase in valuation adjustments that reduced the value of our REO inventory. The foreclosed property income in the first quarter of 2010 was primarily due to the recognition of $562 million in fees from the cancellation and restructuring of some of our mortgage insurance coverage; there were no such fees recognized in the first quarter 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

Table of Contents

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 13 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 13: Credit Loss Performance Metrics

	For the Three Months Ended March 31,			
	2011		2010	
	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)			
Charge-offs, net of recoveries[2]	$ 4,704	61.2bp	$ 4,844	62.9bp
Foreclosed property (income) expense[2]	488	6.4	(19)	(0.2)
Credit losses including the effect of fair value losses on acquired credit-impaired loans	5,192	67.6	4,825	62.7
Less: Fair value losses resulting from acquired credit-impaired loans	(31)	(0.4)	(58)	(0.8)
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense	525	6.9	380	4.9
Credit losses and credit loss ratio	$ 5,686	74.1bp	$ 5,147	66.8bp
Credit losses attributable to:				
Single-family	$ 5,604		$ 5,062	
Multifamily	82		85	
Total	$ 5,686		$ 5,147	
Average single-family default rate		0.44%		0.46%
Average single-family initial charge-off severity rate[3]		35.93%		35.40%
Average multifamily default rate		0.12%		0.09%
Average multifamily initial charge-off severity rate[3]		36.85%		40.25%

(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) In the first quarter of 2011, 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 for the first quarter of 2011 was 5.7 basis points.

(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 increase in our credit losses is primarily due to an increase in foreclosed property expense. During the first quarter of 2010, we recognized $562 million of fees from the cancellation and restructuring of some of our mortgage insurance as a reduction to foreclosed property expense; no such fees were received in the first quarter of 2011. In addition, while defaults remain high, defaults in the first quarter of 2011 were lower than

they would have been due to delays caused by the servicer foreclosure process deficiencies and the resulting foreclosure pause.

Our 2009, 2010 and first quarter of 2011 vintages accounted for approximately 1% of our single-family credit losses for the first quarter of 2011. Typically, credit losses on mortgage loans do not peak until the third through fifth years following origination. We provide more detailed credit performance information, including serious delinquency rates by geographic region, statistics on nonperforming loans and foreclosure activity in Risk Management Credit Risk Management Mortgage Credit Risk Management.

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with 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 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 14 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 14: Single-Family Credit Loss Sensitivity[1]

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 26,774	$ 25,937
Less: Projected credit risk sharing proceeds	(2,581)	(2,771)
Net single-family credit loss sensitivity	$ 24,193	$ 23,166
Outstanding single-family whole loans and Fannie Mae MBS	$ 2,815,575	$ 2,782,512
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.86%	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 March 31, 2011 and December 31, 2010. 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.

Table of Contents

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 $2.7 billion during the first quarter of 2011 compared with $7.6 billion during the first quarter 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 detailed discussion on these impairments.

We paid or accrued incentive fees for servicers of $80 million during the first quarter of 2011 compared with $68 million during the first quarter 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. When we begin operating under a functional structure, 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 first quarters 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.

Table of Contents

Single-Family Business Results

Table 15 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 15: Single-Family Business Results

	For the Three Months Ended March 31,		
	2011	2010	Variance
	(Dollars in millions)		
Statement of operations data:[1]			
Net interest expense	$ (898)	$ (1,945)	$ 1,047
Guaranty fee income[2]	1,871	1,768	103
Credit-related expenses[3]	(11,106)	(11,926)	820
Other expenses[4]	(586)	(513)	(73)
Loss before federal income taxes	(10,719)	(12,616)	1,897
Benefit (provision) for federal income taxes	(2)	51	(53)
Net loss attributable to Fannie Mae	$ (10,721)	$ (12,565)	$ 1,844
Other key performance data:			
Single-family effective guaranty fee rate (in basis points)[5]	26.0	24.4	
Single-family average charged guaranty fee on new acquisitions (in basis points)[6]	26.1	26.9	
Average single-family guaranty book of business[7]	$ 2,881,300	$ 2,893,988	
Single-family Fannie Mae MBS issues[8]	$ 166,673	$ 124,358	

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

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

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

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

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

(6) 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.

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

(8) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period. The three months ended March 31, 2010 includes Housing Finance Agency (HFA) new issue bond program issuances of $3.1 billion. There were no HFA new issue bond program issuances in 2011.

Net Interest Expense

Net interest expense for the Single-Family business segment includes: (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; (3) cash payments received on loans that have been placed on nonaccrual status; and (4) an allocated cost of capital charge among our three business segments. Net interest expense decreased in the first quarter of 2011 compared with the first quarter of 2010 primarily due to a significant decrease in interest

29

Table of Contents

income not recognized for loans on nonaccrual status because of a decline in the number of loans on nonaccrual status.

Guaranty Fee Income

Guaranty fee income increased in the first quarter of 2011 compared with the first quarter of 2010 due to an increase in the amortization of risk-based pricing adjustments.

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. There were fewer new mortgage originations due to weakness in the housing market and an increase in liquidations due to the 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 48.6% for the first quarter of 2011.

Credit-Related Expenses

Single-family credit-related expenses decreased in the first quarter of 2011 compared with the first quarter of 2010, primarily because our total single-family loss reserves increased less in the first quarter of 2011 compared with the first quarter of 2010.

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

Multifamily Business Results

Table 16 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 of Contents

Table 16: Multifamily Business Results

	For the Three Months Ended March 31,		
	2011	2010	Variance
	(Dollars in millions)		
Statement of operations data:			
Guaranty fee income[1]	$ 209	$ 194	$ 15
Fee and other income	58	35	23
Losses from partnership investments[2]	(12)	(58)	46
Credit-related income[3]	64	42	22
Other expenses[4]	(67)	(101)	34
Income before federal income taxes	252	112	140
Provision for federal income taxes	(5)	(13)	8
Net income attributable to Fannie Mae	$ 247	$ 99	$ 148
Other key performance data:			
Multifamily effective guaranty fee rate (in basis points)[5]	44.0	41.8	
Credit loss performance ratio (in basis points)[6]	17.3	18.3	
Average multifamily guaranty book of business[7]	$ 190,012	$ 185,703	
Multifamily new business volumes[8]	5,024	4,162	
Multifamily units financed from new business volumes[9]	83,000	61,000	
Fannie Mae multifamily MBS issuances[10]	8,581	4,073	
Fannie Mae multifamily structured securities issuances (issued by Capital Markets group)[11]	1,400	1,821	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets Group s results)[12]	230	205	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets Group s portfolio[13]	114,375	117,709	

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Multifamily serious delinquency rate	0.64%	0.71%
Percentage of guaranty book of business with credit enhancement	90	89
Fannie Mae percentage of total multifamily mortgage debt outstanding[14]	20.5	20.1
Fannie Mae multifamily MBS outstanding[15]	$ 83,145	$ 77,251

(1)

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

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

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

(4) Consists of net interest income or expense, investment gains, 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 Fannie Mae MBS issued (excluding portfolio securitizations) and loans purchased during the period. The three months ended March 31, 2010 includes $1.0 billion of HFA new issue bond program issuances. There were no HFA new issue bond program issuances for the three months ended March 31, 2011.

(9) Excludes HFA new issue bond program.

(10) Reflects unpaid principal balance of Fannie Mae MBS issued during the period. Includes: (a) issuances of new MBS volumes, (b) $3.5 billion of Fannie Mae portfolio securitization transactions and (c) $119 million of conversion of adjustable rate loans to fixed rate loans and DMBS securities to MBS securities for the three months ended March 31, 2011. There were no Fannie Mae portfolio securitizations transactions or conversions of adjustable rate loans to fixed rate loans and DMBS securities to MBS securities for the three months ended March 31, 2010.

(11) Reflects original unpaid principal balance of out-of-portfolio 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 March 31, 2011 is through December 31, 2010 and is based on the Federal Reserve s March 2011 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Information as of December 31, 2010 is through September 30, 2010.

(15) Includes $23.4 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 sheet, as of March 31, 2011 and December 31, 2010, respectively; and $1.4 billion of bonds issued by HFAs as of both March 31, 2011 and December 31, 2010.

Guaranty Fee Income

Multifamily guaranty fee income increased in the first quarter of 2011 compared with the first quarter 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 book of business.

Credit-Related Income

Multifamily credit-related income increased in the first quarter of 2011 compared with the first quarter of 2010 primarily due to a modest decrease in the allowance for loan losses as the multifamily sector continued to show improvement.

Multifamily credit losses were relatively flat period over period at $82 million in the first quarter of 2011 compared with $85 million in the first quarter of 2010. While national multifamily market fundamentals improved during the first quarter of 2011, certain local markets and properties continue to exhibit weak fundamentals. As a result, we may

continue to experience losses commensurate with 2010 levels for the remainder of 2011 despite generally improving market fundamentals.

Capital Markets Group Results

Table 17 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 17: Capital Markets Group Results

	For the Three Months Ended March 31,		
	2011	2010	Variance
	(Dollars in millions)		
Statement of operations data:			
Net interest income[1]	$ 3,710	$ 3,057	$ 653
Investment gains, net[2]	870	792	78
Net other-than-temporary impairments	(44)	(236)	192
Fair value gains (losses), net[3]	218	(1,186)	1,404
Fee and other income	75	104	(29)
Other expenses[4]	(553)	(423)	(130)
Income before federal income taxes	4,276	2,108	2,168
Benefit for federal income taxes	5	29	(24)
Net income attributable to Fannie Mae	$ 4,281	$ 2,137	$ 2,144

(1) Includes $2.0 billion and $795 million of contractual interest, excluding recoveries, on nonaccrual loans received from the Single-Family segment for the three months ended March 31, 2011 and 2010, respectively. 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 first quarter of 2011 compared with the first quarter of 2010 primarily due to a decline in funding costs as we replaced higher cost debt with lower cost debt. This increase of net interest income was partially offset by a decline in interest income from our mortgage portfolio. Although our mortgage portfolio loan balance increased, the reduction of our mortgage securities balance and increase in the 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 first quarter 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, Capital Markets net interest income and net interest yield increased in the first quarter of 2011 and 2010 as a result of funds we received from Treasury under the senior preferred stock purchase agreement

because the cash received was used to reduce our debt and the cost of these funds is included in dividends rather than 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 9: 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 $635 million in the first quarter of 2011 compared with an $835 million decrease in the first quarter 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 first quarter of 2011.

Fair Value Gains (Losses), Net

The derivative gains and losses that are reported for the Capital Markets group are consistent with the same 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 on our trading securities for the segment during the first quarter of 2011 were attributable to a narrowing of spreads on CMBS, partially offset by losses on agency MBS due to an increase in interest rates during the period.

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

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 March 31, 2011, we owned $757.6 billion in mortgage assets, compared with $788.8 billion as of December 31, 2010.

Table 18 summarizes our Capital Markets group s mortgage portfolio activity for the periods indicated.

Table of Contents

Table 18: Capital Markets Group s Mortgage Portfolio Activity[1]

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Total Capital Markets mortgage portfolio, beginning balance as of January 1	$ 788,771	$ 772,728
Mortgage loans:		
Beginning balance as of January 1	427,074	281,162
Purchases	38,074	70,561
Securitizations[2]	(23,983)	(14,254)
Liquidations[3]	(19,309)	(7,192)
Mortgage loans, ending balance as of March 31	421,856	330,277
Mortgage securities:		
Beginning balance as of January 1	$ 361,697	$ 491,566
Purchases[4]	5,090	29,186
Securitizations[2]	23,983	14,254
Sales	(35,426)	(79,784)
Liquidations[3]	(19,582)	(20,690)
Mortgage securities, ending balance as of March 31	335,762	434,532
Total Capital Markets mortgage portfolio, ending balance as of March 31	$ 757,618	$ 764,809

(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.

Table 19 shows the composition of the Capital Markets group s mortgage portfolio as of March 31, 2011 and December 31, 2010.

35

Table of Contents

Table 19: Capital Markets Group s Mortgage Portfolio Composition[1]

	As of	
	March 31, 2011	**December 31, 2010**
	(Dollars in millions)	
Capital Markets group s mortgage loans:		
Single-family loans		
Government insured or guaranteed	$ 51,348	$ 51,783
Conventional:		
Long-term, fixed-rate	239,723	237,096
Intermediate-term, fixed-rate	10,721	11,446
Adjustable-rate	29,496	31,526
Total single-family conventional	279,940	280,068
Total single-family loans	331,288	331,851
Multifamily loans		
Government insured or guaranteed	413	431
Conventional:		
Long-term, fixed-rate	4,180	4,413
Intermediate-term, fixed-rate	67,375	71,010
Adjustable-rate	18,600	19,369
Total multifamily conventional	90,155	94,792
Total multifamily loans	90,568	95,223
Total Capital Markets group s mortgage loans	421,856	427,074
Capital Markets group s mortgage-related securities:		
Fannie Mae	238,330	260,429
Freddie Mac	15,659	17,332
Ginnie Mae	1,170	1,425
Alt-A private-label securities	21,590	22,283
Subprime private-label securities	17,653	18,038
CMBS	24,844	25,052
Mortgage revenue bonds	12,008	12,525
Other mortgage-related securities	4,508	4,613
Total Capital Markets group s mortgage-related securities[2]	335,762	361,697
Total Capital Markets group s mortgage portfolio	$ 757,618	$ 788,771

(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $339.8 billion and $365.8 billion as of March 31, 2011 and December 31, 2010, respectively.

The Capital Markets group s mortgage portfolio decreased from December 31, 2010 to March 31, 2011 primarily due to sales and liquidations, partially offset by purchases of delinquent loans from MBS trusts. 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.

We purchased approximately 113,000 delinquent loans with an unpaid principal balance of approximately $20 billion from our single-family MBS trusts in the first quarter of 2011. The total unpaid principal balance of nonperforming loans in the Capital Markets group s mortgage portfolio was $231.3 billion as of March 31, 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 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

Table of Contents

including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. As of March 31, 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 $6.8 billion. In April 2011, we purchased approximately 32,000 delinquent loans with an unpaid principal balance of $5.7 billion from our single-family MBS trusts.

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 20 presents a summary of our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010.

Table 20: Summary of Condensed Consolidated Balance Sheets

	As of		
	March 31, 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	$ 46,081	$ 29,048	$ 17,033
Restricted cash	36,730	63,678	(26,948)
Investments in securities[1]	146,648	151,248	(4,600)
Mortgage loans			
Of Fannie Mae	402,711	407,482	(4,771)
Of consolidated trusts	2,614,903	2,577,794	37,109
Allowance for loan losses	(67,557)	(61,556)	(6,001)
Mortgage loans, net of allowance for loan losses	2,950,057	2,923,720	26,337
Other assets[2]	47,526	54,278	(6,752)
Total assets	$ 3,227,042	$ 3,221,972	$ 5,070
Liabilities and equity (deficit)			
Debt			
Of Fannie Mae	$ 761,187	$ 780,044	$ (18,857)
Of consolidated trusts	2,447,589	2,416,956	30,633
Other liabilities[3]	26,684	27,489	(805)
Total liabilities	3,235,460	3,224,489	10,971
Senior preferred stock	91,200	88,600	2,600
Other equity (deficit)[4]	(99,618)	(91,117)	(8,501)

Total stockholders equity (deficit)	(8,418)	(2,517)	(5,901)
Total liabilities and stockholders deficit	$ 3,227,042	$ 3,221,972	$ 5,070

(1) Includes $33.5 billion as of March 31, 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 31: 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 quarter of 2011 primarily due to a decline in the volume of refinance activity as interest rates increased, 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 March 31, 2011. Table 21 presents the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of March 31, 2011 and December 31, 2010.

Table 21: Summary of Mortgage-Related Securities at Fair Value

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$ 27,774	$ 30,226
Freddie Mac	16,557	18,322
Ginnie Mae	1,315	1,629
Alt-A private-label securities	15,350	15,573
Subprime private-label securities	11,207	11,513
CMBS	25,867	25,608
Mortgage revenue bonds	11,148	11,650
Other mortgage-related securities	3,947	3,974
Total	$ 113,165	$ 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 $39.6 billion as of March 31, 2011, of which $32.0 billion was rated below investment grade. Table 22

Table of Contents

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 March 31, 2011. As of March 31, 2011, we had realized actual cumulative principal shortfalls of approximately 3% of the total cumulative credit losses reported in this table and reflected in our condensed consolidated financial statements.

Table 22: Analysis of Losses on Alt-A and Subprime Private-Label Mortgage-Related Securities

	As of March 31, 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	$ 2,991	$ 1,658	$ (1,287)	$ (124)	$ (1,163)
Subprime private-label securities	2,724	1,547	(1,176)	(268)	(908)
Total	$ 5,715	$ 3,205	$ (2,463)	$ (392)	$ (2,071)
Available-for-sale securities:					
Alt-A private-label securities	$ 18,599	$ 13,692	$ (5,107)	$ (1,645)	$ (3,462)
Subprime private-label securities[5]	15,298	9,660	(5,678)	(1,449)	(4,229)
Total	$ 33,897	$ 23,352	$ (10,785)	$ (3,094)	$ (7,691)
Grand Total	$ 39,612	$ 26,557	$ (13,248)	$ (3,486)	$ (9,762)

(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 23 presents the 60 days or more delinquency rates and average loss severities for the loans underlying our Alt-A and subprime private-label mortgage-related securities for the most recent remittance period of the current reporting quarter. The delinquency rates and average loss severities are based on available data provided by Intex Solutions, Inc. (Intex) and CoreLogic, LoanPerformance (CoreLogic). We also present the average credit enhancement and monoline financial guaranteed amount for these securities as of March 31, 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 information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

Table of Contents

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

	As of March 31, 2011						
	Unpaid Principal Balance						Monoline
	Trading	Available-for-Sale	Wraps[1]	³ 60 Days Delinquent[2][3]	Average Loss Severity[3][4]	Average Credit Enhancement[3][5]	Financial Guaranteed Amount[6]
	(Dollars in millions)						
Private-label mortgage-related securities backed by:[7]							
Alt-A mortgage loans:							
Option ARM Alt-A mortgage loans:							
2004 and prior	$	$ 511	$	33.1%	64.5%	18.2%	$
2005		1,375		45.0	57.4	43.0	268
2006		1,335		46.5	65.8	32.3	144
2007	2,078			45.9	61.7	59.5	752
Other Alt-A mortgage loans:							
2004 and prior		6,704		10.2	46.8	12.4	13
2005	90	4,347	129	24.4	57.0	6.6	
2006	67	4,201		30.6	59.8	1.8	
2007	756		194	44.4	67.2	30.2	314
2008[8]		126					
Total Alt-A mortgage loans:	2,991	18,599	323				1,491
Subprime mortgage loans:							
2004 and prior[9]		2,159	652	24.8	70.4	60.4	674
2005[8]		197	1,440	44.6	73.9	58.1	229
2006		12,303		49.7	78.0	19.6	52
2007	2,724	639	5,728	50.2	76.1	23.6	182
Total subprime mortgage loans:	2,724	15,298	7,820				1,137
Total Alt-A and subprime mortgage loans:	$ 5,715	$ 33,897	$ 8,143				$ 2,628

(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 March 2011 remittances for February 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 March 2011 remittances for February 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.

Table of Contents

(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 $126 million for the 2008 vintage of other Alt-A loans and $20 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 quarter 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 March 31, 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 quarter of 2011 was primarily driven by sales of Fannie Mae MBS, which are accounted for as reissuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificates are transferred from our ownership to a third party.

Derivative Instruments

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

Our derivative assets and liabilities consist of these risk management derivatives and our mortgage commitments. We refer to the difference between the derivative assets and derivative liabilities recorded in our condensed consolidated balance sheets as our net derivative asset or liability. We present, by derivative instrument type, the estimated fair value of derivatives recorded in our condensed consolidated balance sheets and the related outstanding notional amounts as of March 31, 2011 and December 31, 2010 in Note 9, Derivative Instruments. Table 24 provides an analysis of the factors driving the change from December 31, 2010 to March 31, 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 of Contents

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

	For the Three Months Ended March 31, 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]	58
Fair value at date of termination of contracts settled during the period[2]	308
Net collateral received	(705)
Periodic net cash contractual interest payments[3]	391
Total cash payments	52
Statement of operations impact of recognized amounts:	
Net contractual interest expense accruals on interest rate swaps	(635)
Net change in fair value during the period	751
Risk management derivatives fair value gains, net	116
Net risk management derivative liability as of March 31, 2011	$ (621)

(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 in the first quarter of 2011. See Table 25 in Supplemental Non-GAAP Information Fair Value Balance Sheets for details of the change in our net deficit.

SUPPLEMENTAL NON-GAAP INFORMATION FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value.

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

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

		For the Three Months Ended March 31, 2011 (Dollars in millions)
GAAP consolidated balance sheets:		
Fannie Mae stockholders deficit as of December 31, 2010[1]	$	(2,599)
Total comprehensive loss		(6,290)
Capital transactions:[2]		
Funds received from Treasury under the senior preferred stock purchase agreement		2,600
Senior preferred stock dividends		(2,216)
Capital transactions, net		384
Other		6
Fannie Mae stockholders deficit as of March 31, 2011[1]	$	(8,499)
Non-GAAP consolidated fair value balance sheets:		
Estimated fair value of net assets as of December 31, 2010	$	(120,294)
Capital transactions, net		384
Change in estimated fair value of net assets, excluding capital transactions		(11,231)
Decrease in estimated fair value of net assets, net		(10,847)
Estimated fair value of net assets as of March 31, 2011	$	(131,141)

(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 equity (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 $11.2 billion decrease in the fair value of our net assets, excluding capital transactions, during the first quarter 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.

Table of Contents

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 26 below.

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

	As of March 31, 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	$ 56,561	$	$ 56,561	$ 80,975	$	$ 80,975
ederal funds sold and curities purchased under greements to resell or milar arrangements	26,250		26,250	11,751		11,751
rading securities	57,035		57,035	56,856		56,856
vailable-for-sale securities	89,613		89,613	94,392		94,392
fortgage loans:						
fortgage loans held for sale	1,414	44	1,458	915		915
fortgage loans held for vestment, net of allowance r loan losses:						
f Fannie Mae	348,644	(35,472)	313,172	358,698	(39,331)	319,367
f consolidated trusts	2,599,999	18,737(2)	2,618,736(3)	2,564,107	46,038(2)	2,610,145(3)
otal mortgage loans	2,950,057	(16,691)	2,933,366(4)	2,923,720	6,707	2,930,427(4)
dvances to lenders	3,091	(151)	2,940(5)(6)	7,215	(225)	6,990(5)(6)
erivative assets at fair alue	279		279(5)(6)	1,137		1,137(5)(6)
uaranty assets and buy-ups, et	459	440	899(5)(6)	458	356	814(5)(6)
otal financial assets	3,183,345	(16,402)	3,166,943(7)	3,176,504	6,838	3,183,342(7)
redit enhancements	471	3,406	3,877(5)(6)	479	3,286	3,765(5)(6)
ther assets	43,226	(240)	42,986(5)(6)	44,989	(261)	44,728(5)(6)
otal assets	$ 3,227,042	$ (13,236)	$ 3,213,806	$ 3,221,972	$ 9,863	$ 3,231,835
iabilities:						
ederal funds purchased and curities sold under greements to repurchase	$ 25	$	$ 25	$ 52	$ (1)	$ 51
hort-term debt:						
f Fannie Mae	147,092	41	147,133	151,884	90	151,974
f consolidated trusts	5,156		5,156	5,359		5,359
ong-term debt:						
f Fannie Mae	614,095(8)	19,055	633,150	628,160(8)	21,524	649,684

f consolidated trusts	2,442,433(8)	88,041(2)	2,530,474	2,411,597(8)	103,332(2)	2,514,929
erivative liabilities at fair alue	941		941(9)(10)	1,715		1,715(9)(10
uaranty obligations	760	2,667	3,427(9)(10)	769	3,085	3,854(9)(10
otal financial liabilities	3,210,502	109,804	3,320,306(7)	3,199,536	128,030	3,327,566(7)
ther liabilities	24,958	(398)	24,560(9)(10)	24,953	(472)	24,481(9)(10
otal liabilities	3,235,460	109,406	3,344,866	3,224,489	127,558	3,352,047
quity (deficit):						
annie Mae stockholders quity (deficit):						
enior preferred(11)	91,200		91,200	88,600		88,600
referred	20,204	(18,987)	1,217	20,204	(19,829)	375
ommon	(119,903)	(103,655)	(223,558)	(111,403)	(97,866)	(209,269)
otal Fannie Mae ockholders eficit/non-GAAP fair alue of net assets	**$ (8,499)**	**$ (122,642)**	**$ (131,141)**	**$ (2,599)**	**$ (117,695)**	**$ (120,294)**
oncontrolling interests	81		81	82		82
otal deficit	(8,418)	(122,642)	(131,060)	(2,517)	(117,695)	(120,212)
otal liabilities and equity eficit)	$ 3,227,042	$ (13,236)	$ 3,213,806	$ 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 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 sheet of $3.0 billion as of both March 31, 2011 and December 31, 2010.

(4) Performing loans had both a fair value and an unpaid principal balance of $2.8 trillion as of March 31, 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 $143.4 billion and an unpaid principal balance of $254.4 billion as of March 31, 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 $26.6 billion and $27.5 billion as of March 31, 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 $4.3 billion and $9.3 billion as of March 31, 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 $3.1 billion and $3.2 billion as of March 31, 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 the Accrued interest payable in our GAAP condensed consolidated balance sheets. The carrying value of this item in our GAAP condensed consolidated balance sheets totaled $13.8 billion as of both March 31, 2011 and December 31, 2010. 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 $1.7 billion and $2.5 billion as of March 31, 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 planning may be difficult or impossible to execute for a company of our size in our circumstances. See Risk Factors in our 2010 Form 10-K for a description of the risks associated with our contingency planning.

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; an unexpected 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 downgrade in the credit ratings of our senior unsecured debt or the U.S. government s debt from the major

ratings organizations; 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 27 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 27: Activity in Debt of Fannie Mae

	For the Three Months Ended March 31,	
	2011	2010[2]
	(Dollars in millions)	
Issued during the period:		
Short-term:		
Amount	$ 88,201	$ 138,480
Weighted-average interest rate	0.15%	0.23%
Long-term:		
Amount	$ 51,737	$ 101,964
Weighted-average interest rate	2.13%	2.28%
Total issued:		
Amount	$ 139,938	$ 240,444
Weighted-average interest rate	0.88%	1.09%
Paid off during the period:[1]		
Short-term:		
Amount	$ 93,031	$ 130,866
Weighted-average interest rate	0.26%	0.23%
Long-term:		
Amount	$ 66,857	$ 95,163
Weighted-average interest rate	2.82%	3.30%
Total paid off:		
Amount	$ 159,888	$ 226,029
Weighted-average interest rate	1.33%	1.53%

(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 months ended March 31, 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 first quarter of 2011 was lower compared with the first quarter of 2010 primarily because we decreased our redemptions of callable debt and had a lower amount of outstanding debt that matured in the first quarter of 2011, which reduced the amount of debt we needed to issue. In addition, our funding needs decreased because of a decrease in purchases of delinquent loans from MBS trusts. During the first half of 2010, we purchased a significant amount of loans from MBS trusts that were four or more consecutive monthly payments delinquent.

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, 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 in this report and in our 2010 Form 10-K 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 March 31, 2011, our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt remained constant at 19% compared with 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 2.69% as of March 31, 2011 from 2.77% as of December 31, 2010.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Our debt cap under the senior preferred stock purchase agreement was reduced to $972 billion in 2011. As of March 31, 2011, our aggregate indebtedness totaled $774.0 billion, which was $198.0 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt cap 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 28 provides information as of March 31, 2011 and December 31, 2010 on our outstanding short-term and long-term debt based on its original contractual terms.

Table of Contents

Table 28: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of					
	March 31, 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		$ 25	0.01%		$ 52	2.20%
Short-term debt:						
Fixed-rate:						
Discount notes		$ 146,751	0.26%		$ 151,500	0.32%
Foreign exchange discount notes		341	2.51		384	2.43
Total short-term debt of Fannie Mae[2]		147,092	0.27		151,884	0.32
Debt of consolidated trusts		5,156	0.22		5,359	0.23
Total short-term debt		$ 152,248	0.27%		$ 157,243	0.32%
Long-term debt:						
Senior fixed:						
Benchmark notes and bonds	2011 - 2030	$ 291,851	3.14%	2011 - 2030	$ 300,344	3.20%
Medium-term notes	2011 - 2021	190,950	2.00	2011 - 2020	199,266	2.13
Foreign exchange notes and bonds	2017 - 2028	1,204	6.07	2017 - 2028	1,177	6.21
Other long-term debt[3]	2011 - 2040	47,630	5.64	2011 - 2040	44,893	5.64
Total senior fixed		531,635	2.96		545,680	3.02
Senior floating:						
Medium-term notes	2011 - 2016	74,454	0.30	2011 - 2015	72,039	0.31
Other long-term debt[3]	2020 - 2037	389	5.27	2020 - 2037	386	4.92
Total senior floating		74,843	0.32		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	2,724	9.91	2019	2,663	9.91
Total subordinated fixed-rate		7,617	6.80		10,055	6.65

Total long-term debt of Fannie Mae[5]		614,095	2.69		628,160	2.77
Debt of consolidated trusts[3]	2011 - 2051	2,442,433	4.61	2011 - 2051	2,411,597	4.59
Total long-term debt		$ 3,056,528	4.23%		$ 3,039,757	4.22%
Outstanding callable debt of Fannie Mae[6]		$ 204,664	2.50%		$ 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 $772.6 billion and $792.6 billion as of March 31, 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 March 31, 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 $87.5 billion and $95.4 billion as of March 31, 2011 and December 31, 2010, respectively. Reported amounts also include unamortized discounts, premiums and other cost basis adjustments of $11.4 billion and $12.4 billion as of March 31,

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 $625.5 billion and $640.5 billion as of March 31, 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 29 presents the maturity profile, as of March 31, 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, decreased 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 31% as of March 31, 2011, compared with 32% as of December 31, 2010. The weighted-average maturity of our outstanding debt that is maturing within one year was 98 days as of March 31, 2011, compared with 116 days as of December 31, 2010.

Table 29: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[(1)]

(1) Includes unamortized discounts, premiums and other cost basis adjustments of $103 million as of March 31, 2011. Excludes debt of consolidated trusts maturing within one year of $9.6 billion and federal funds purchased and securities sold under agreements to repurchase of $25 million as of March 31, 2011.

Table 30 presents the maturity profile, as of March 31, 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 58 months as of both March 31, 2011 and December 31, 2010.

Table of Contents

Table 30: 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 $11.4 billion as of March 31, 2011. Excludes debt of consolidated trusts of $2.4 trillion as of March 31, 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 31 provides information on the composition of our cash and other investments portfolio for the periods indicated.

Table 31: Cash and Other Investments Portfolio

	As of March 31, 2011	As of December 31, 2010
	(Dollars in millions)	
Cash and cash equivalents	$ 19,831	$ 17,297
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,250	11,751
Non-mortgage-related securities:		
U.S. Treasury securities[1]	29,383	27,432
Asset-backed securities[2]	4,100	5,321
Total non-mortgage-related securities	33,483	32,753
Total cash and other investments	$ 79,564	$ 61,801

(1) Excludes $3.1 billion and $4.0 billion of U.S. Treasury securities which are a component of cash equivalents as of March 31, 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 March 31, 2011 primarily due to a decrease in the weighted-average maturity of our outstanding debt 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.

52

Table of Contents

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 May 2, 2011, on April 20, 2011, Standard & Poor s revised its outlook on the debt issues of Fannie Mae to negative from stable. This action followed Standard & Poor s revision to the outlook of the U.S. government s long-term credit rating to negative from stable. Standard & Poor s noted that the ratings on Fannie Mae and other government-related entities are constrained by the long-term sovereign rating on the U.S. government and noted that it will not raise the outlooks or ratings on these entities above the U.S. government as long as the ratings and outlook on the U.S. remain unchanged. Standard & Poor s also stated that if it were to lower its ratings on the U.S. government, it would likely lower the ratings on the debt of Fannie Mae and other government-related entities.

Table 32 presents the credit ratings issued by the three major credit rating agencies as of May 2, 2011.

Table 32: Fannie Mae Credit Ratings

	As of May 2, 2011		
	Standard & Poor s	**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	Negative (for Long Term Senior Debt and Qualifying Subordinated Debt)	Stable (for all ratings)	Stable (for AAA rated Long Term Issuer Default Rating)

Cash Flows

Three Months Ended March 31, 2011. Cash and cash equivalents of $19.8 billion as of March 31, 2011 increased by $2.5 billion from December 31, 2010 driven by net cash inflows provided by operating activities of $2.6 billion. Net cash generated from investing activities totaled $123.8 billion, resulting primarily from proceeds received from repayments of loans held for investment. These net cash inflows were offset by net cash used in financing activities of $123.9 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt.

Three Months Ended March 31, 2010. Cash and cash equivalents of $30.5 billion as of March 31, 2010 increased by $23.7 billion from December 31, 2009. Net cash generated from investing activities totaled $108.7 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 $30.9 billion resulting primarily from purchases of trading securities. The net cash used in financing activities of $54.2 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-

53

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 and Treasury s ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding, we 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 $90.2 billion from Treasury pursuant to the senior preferred stock purchase agreement as of March 31, 2011. In May 2011, the Acting Director of FHFA submitted a request for $8.5 billion from Treasury under the senior preferred stock purchase agreement to eliminate our net worth deficit as of March 31, 2011, and requested receipt of those funds on or prior to June 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 $99.7 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.

As consideration for Treasury s funding commitment, we issued one million shares of senior preferred stock and a warrant to purchase shares of our common stock to Treasury. A quarterly commitment fee was scheduled to be set by Treasury beginning on March 31, 2011. This commitment fee was waived by Treasury for the first quarter of 2011. On March 31, 2011, FHFA was notified by Treasury that it was waiving the commitment fee for the second quarter of 2011 due to the continued fragility of the U.S. mortgage market and because Treasury believed that imposing the commitment fee would not generate increased compensation for taxpayers. Treasury further noted that it would reevaluate the situation during the next calendar quarter to determine whether to set the quarterly commitment fee for the next quarter under the senior preferred stock purchase agreement.

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 first quarter dividend of $2.2 billion was declared by the conservator and paid by us on March 31, 2011. Upon receipt of additional funds from Treasury in June 2011, which FHFA requested on our behalf in May 2011, the annualized dividend on the senior preferred stock will be $10.0 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 $56.7 billion as of March 31, 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 March 31, 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 $17.7 billion as of March 31, 2011 and $17.8 billion as of December 31, 2010. As of both March 31, 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.

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 macro-economic 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

Table of Contents

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 33 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 March 31, 2011 and December 31, 2010.

The total mortgage credit book of business is not impacted by our repurchase of delinquent loans as this activity is a reclassification from loans of consolidated trusts to loans of Fannie Mae.

Table 33: Composition of Mortgage Credit Book of Business[1]

	As of March 31, 2011					
	Single-Family		Multifamily		Total	
	Conventional[2]	Government[3]	Conventional[2]	Government[3]	Conventional[2]	Government[3]
	(Dollars in millions)					
Mortgage assets:						
Mortgage loans[4]	$ 2,799,337	$ 52,516	$ 171,425	$ 453	$ 2,970,762	$ 52,969
Fannie Mae MBS[5][7]	6,177	1,543		2	6,177	1,545
Agency mortgage-related securities[5][6]	15,616	1,186		32	15,616	1,218
Mortgage revenue bonds[5]	2,140	1,077	7,192	1,599	9,332	2,676
Other mortgage-related securities[5]	42,475	1,629	24,844	15	67,319	1,644
Total mortgage assets	2,865,745	57,951	203,461	2,101	3,069,206	60,052
Unconsolidated Fannie Mae MBS[5][7]	1,814	16,985	37	1,791	1,851	18,776
Other credit guarantees[8]	16,191	2,949	16,536	380	32,727	3,329
Mortgage credit book of business	$ 2,883,750	$ 77,885	$ 220,034	$ 4,272	$ 3,103,784	$ 82,157
Guaranty book of business	$ 2,823,519	$ 73,993	$ 187,998	$ 2,626	$ 3,011,517	$ 76,619

Table of Contents

	As of December 31, 2010					
	Single-Family		Multifamily		Total	
	Conventional[2]	Government[3]	Conventional[2]	Government[3]	Conventional[2]	Government[3]
	(Dollars in millions)					
Mortgage assets:						
Mortgage loans[4]	$ 2,766,870	$ 52,577	$ 170,074	$ 476	$ 2,936,944	$ 53,053
Fannie Mae MBS[5][7]	5,961	1,586		2	5,961	1,588
Agency mortgage-related securities[5][6]	17,291	1,506		24	17,291	1,530
Mortgage revenue bonds[5]	2,197	1,190	7,449	1,689	9,646	2,879
Other mortgage-related securities[5]	43,634	1,657	25,052	15	68,686	1,672
Total mortgage assets	2,835,953	58,516	202,575	2,206	3,038,528	60,722
Unconsolidated Fannie Mae MBS[5][7]	2,230	17,238	37	1,818	2,267	19,056
Other credit guarantees[8]	15,529	3,096	16,601	393	32,130	3,489
Mortgage credit book of business	$ 2,853,712	$ 78,850	$ 219,213	$ 4,417	$ 3,072,925	$ 83,267
Guaranty book of business	$ 2,790,590	$ 74,497	$ 186,712	$ 2,689	$ 2,977,302	$ 77,186

(1) Based on unpaid principal balance.

(2) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured by the U.S. government or any of its agencies.

(3) 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.

(4) Includes unscheduled borrower principal payments.

(5) Excludes unscheduled borrower principal payments.

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

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

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

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 in detail 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.

The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our single-family guaranty book of business for which we have access to detailed loan-level information, which

constituted over 99% of our single-family conventional guaranty book of business as of both March 31, 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. 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.

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.

For additional 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 March 31, 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 of Contents

Table 34 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.

Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2] For the Three Months Ended March 31,		Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	2011	2010	March 31, 2011	December 31, 2010
	(Dollars in millions)			
Original LTV ratio:[5]				
<= 60%	30%	30%	24%	24%
60.01% to 70%	16	16	16	16
70.01% to 80%	38	37	42	41
80.01% to 90%[6]	8	9	9	9
90.01% to 100%[6]	6	6	8	9
Greater than 100%[6]	2	2	1	1
Total	100%	100%	100%	100%
Weighted average	69%	69%	71%	71%
Average loan amount	$ 213,710	$ 224,719	$ 156,557	$ 155,531
Estimated mark-to-market LTV ratio:[7]				
<= 60%			27%	28%
60.01% to 70%			12	13
70.01% to 80%			17	19
80.01% to 90%			16	15
90.01% to 100%			10	9
Greater than 100%			18	16
Total			100%	100%
Weighted average			79%	77%
Product type:				
Fixed-rate:[8]				
Long-term	68%	72%	74%	74%
Intermediate-term	25	20	14	14
Interest-only	*	*	2	2
Total fixed-rate	93	92	90	90

Adjustable-rate:				
Interest-only	1	2	3	4
Other ARMs	6	6	7	6
Total adjustable-rate	7	8	10	10
Total	100%	100%	100%	100%
Number of property units:				
1 unit	98%	98%	97%	97%
2-4 units	2	2	3	3
Total	100%	100%	100%	100%

Table of Contents

	Percent of Single-Family Conventional Business Volume[2] For the Three Months Ended March 31,		Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	2011	2010	March 31, 2011	December 31, 2010
	(Dollars in millions)			
Property type:				
Single-family homes	91%	90%	91%	91%
Condo/Co-op	9	10	9	9
Total	100%	100%	100%	100%
Occupancy type:				
Primary residence	89%	90%	89%	90%
Second/vacation home	5	5	5	4
Investor	6	5	6	6
Total	100%	100%	100%	100%
FICO credit score:				
< 620	*%	1%	3%	4%
620 to < 660	2	2	7	7
660 to < 700	7	8	14	15
700 to < 740	17	18	21	21
>= 740	74	71	55	53
Total	100%	100%	100%	100%
Weighted average	762	758	736	735
Loan purpose:				
Purchase	18%	22%	32%	33%
Cash-out refinance	19	20	29	29
Other refinance	63	58	39	38
Total	100%	100%	100%	100%
Geographic concentration:[9]				
Midwest	15%	15%	15%	15%
Northeast	20	21	19	19
Southeast	20	18	24	24
Southwest	15	14	15	15
West	30	32	27	27
Total	100%	100%	100%	100%

Origination year:		
<= 2001	2%	2%
2002	3	3
2003	10	11
2004	6	7
2005	8	9
2006	8	8
2007	11	12
2008	8	9
2009	20	21
2010	21	18
2011	3	
Total	100%	100%

* Represents less than 0.5% of single-family conventional business volume or book of business.

(1) We reflect second lien mortgage loans in the original LTV ratio calculation only when we own both the first and second lien mortgage loans or we own only the second lien mortgage loan. Second lien mortgage loans represented less than 0.5% of our single-family conventional guaranty book of business as of both March 31, 2011 and December 31, 2010. Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

(2) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition. Single-Family business volume refers to both single-family mortgage loans we purchase for our mortgage portfolio and single-family mortgage loans we securitize into Fannie Mae MBS.

(3) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of the end of each period.

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 4.3% of our single-family conventional guaranty book of business as of March 31, 2011 and 3.9% as of December 31, 2010. See Business Our Charter and Regulation of Our Activities Charter Act-Loan Standards in our 2010 Form 10-K for additional information on loan limits.

(5) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(6) We purchase loans with original LTV ratios above 80% to fulfill our mission to serve the primary mortgage market and provide liquidity to the housing system. Except as permitted under Refi Plus, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have a LTV ratio over 80%.

(7) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(8) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate has maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.

(9) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast includes CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Credit Profile Summary

We continue to see the positive effects 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. The single-family loans we purchased or guaranteed in the first quarter of 2011 have a strong credit profile with a weighted average original LTV ratio of 69%, a weighted average FICO credit score of 762, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. Due to lower acquisition volume and the relatively high volume of Refi Plus loans (including HARP), the LTV ratios at origination for our 2011 acquisitions to date are higher than for our 2009 and 2010 acquisitions.

Whether our acquisitions throughout 2011 will exhibit the same credit profile as our recent acquisitions depends on many factors, including our future pricing and eligibility standards, our future objectives, mortgage insurers eligibility

standards, our future volume of Refi Plus acquisitions, which typically include higher LTV ratios and lower FICO credit scores, and future market conditions. FHA s role as the lower-cost option for some consumers, or in some cases the only option, for loans with higher LTV ratios reduced our acquisition of these types of loans. We expect the ultimate performance of all our loans will be affected by macroeconomic trends, including unemployment, the economy, and home prices.

The credit profile of our acquisitions in the first quarter of 2011 was further influenced by a significant percentage of our acquisitions representing refinanced loans, which generally have a strong credit profile because refinancing indicates the borrower s ability to make their mortgage payment and desire to maintain homeownership. Refinancings represented 82% of our single-family acquisitions in the first quarter of 2011. While refinanced loans have historically tended to perform better than loans used for initial home purchase, Refi Plus loans may not ultimately perform as strongly as traditional refinanced loans because these loans, which relate to non-delinquent Fannie Mae mortgages that were refinanced, may have original LTV ratios as high as 125% and, in some cases, lower FICO credit scores than we generally require. In the first quarter of 2011, our regulator granted our request for an extension of our ability to acquire loans under Refi Plus with LTV ratios greater than 80% and up to 125% for loans originated through June 2012. Approximately 17% of our single-family conventional business volume for the first quarter of 2010 consisted of loans with LTV ratios higher than 80% at the time of purchase. For the first quarter of 2011, these loans accounted for 16% of our single-family business volume.

The prolonged and severe decline in home prices has resulted in the overall estimated weighted average mark-to-market LTV ratio of our single-family conventional guaranty book of business to remain high at 79% as of March 31, 2011, and 77% as of December 31, 2010. The portion of our single-family conventional guaranty book of business with an estimated mark-to-market LTV ratio greater than 100% was 18% as of March 31, 2011, and 16% as of December 31, 2010. If home prices decline further, more loans may have mark-to-market LTV ratios greater than 100%, which increases the risk of delinquency and default.

Our exposure, as discussed in this paragraph, to Alt-A and subprime loans included in our single-family conventional guaranty book of business does not include (1) our investments in private-label mortgage-related securities backed by Alt-A and subprime loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. See Consolidated Balance Sheet Analysis Investments in Mortgage-Related Securities Investments in Private-Label Mortgage-Related Securities for a discussion of our exposure to private-label mortgage-related securities backed by Alt-A and subprime loans. As a result of our decision to discontinue the purchase of newly originated Alt-A loans, except for those that represent the refinancing of an existing Fannie Mae loan, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time. We are also not currently acquiring newly originated subprime loans. We have classified a mortgage loan as Alt-A if the lender that delivered the loan to us classified the loan as Alt-A based on documentation or other features. We have classified a mortgage loan as subprime if the loan was originated by a lender specializing in subprime business or by a subprime division of a large lender. We exclude from the subprime classification loans originated by these lenders if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter system. We apply our classification criteria in order to determine our Alt-A and subprime loan exposures; however, we have other loans with some features that are similar to Alt-A and subprime loans that we have not classified as Alt-A or subprime because they do not meet our classification criteria. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $203.7 billion as of March 31, 2011, represented approximately 7.2% of our single-family conventional guaranty book of business. The unpaid principal balance of subprime loans included in our single-family conventional guaranty book of business of $6.3 billion as of March 31, 2011, represented approximately 0.2% of our single-family conventional guaranty book of business. See Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business for information on our single-family book of business.

The outstanding unpaid principal balance of our jumbo-conforming and high-balance loans was $122.4 billion, or 4.3% of our single-family conventional guaranty book of business, as of March 31, 2011 and $109.7 billion, or 3.9% of our single-family conventional guaranty book of business, as of December 31, 2010. Jumbo-conforming and high-balance loans refer to high-balance loans we acquired pursuant to the Economic Stimulus Act of 2008, the 2008 Reform Act and the American Recovery and Reinvestment Act of 2009, which increased our conforming loan limits in certain high-cost areas above our standard conforming loan limit. These increases are currently in effect for mortgages originated through September 30, 2011 and will expire at that time, unless Congress acts to extend them. The standard conforming loan limit for a one-unit property was $417,000 in 2011 and 2010. See Business Our Charter and Regulation of Our Activities Charter Act Loan Standards in our 2010 Form 10-K for additional information on our loan limits.

The outstanding unpaid principal balance of reverse mortgage whole loans included in our mortgage portfolio was $50.9 billion as of March 31, 2011 and $50.8 billion as of December 31, 2010. Our reverse-mortgage portfolio could increase over time, as each month the scheduled and unscheduled payments, interest, mortgage insurance premium, servicing fee, and default-related costs accrue to increase the unpaid principal balance. The majority of these loans are home equity conversion mortgages insured by the federal government through the FHA. Because home equity conversion mortgages are insured by the federal government, we believe that we have limited exposure to losses on

these loans. In December 2010, we communicated to our lenders that we are exiting the reverse mortgage business and will no longer acquire newly originated home equity conversion mortgages.

Table of Contents

Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to reduce the severity of the losses we incur. If a borrower does not make required payments, we work with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. We refer to actions taken by servicers with borrowers to resolve existing or potential delinquent loan payments as workouts. Our loan workouts reflect our various types of home retention strategies and foreclosure alternatives.

Our home retention solutions are intended to help borrowers stay in their homes and include loan modifications, repayment plans and forbearances. Because we believe that reducing delays and implementing solutions that can be executed in a timely manner and early in the delinquency increases the likelihood that our problem loan management strategies will be successful in avoiding a default or minimizing severity, it is important for our servicers to work with borrowers to complete these solutions as early in their delinquency as feasible. If the servicer cannot provide a viable home retention solution for a problem loan, the servicer will seek to offer foreclosure alternatives, primarily preforeclosure sales and deeds-in-lieu of foreclosure. These alternatives reduce the severity of our loss resulting from a borrower s default while permitting the borrower to avoid going through a foreclosure. However, the existence of a second lien may limit our ability to provide borrowers with loan workout options, including those that are part of our foreclosure prevention efforts. We occasionally execute third-party sales, where we sell the property to a third party immediately prior to entering the foreclosure process. When appropriate, we seek to move to foreclosure expeditiously.

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. We seek to improve the servicing of our delinquent loans through a variety of means, including improving our communications with and training of our servicers, increasing the number of our personnel who manage our servicers, directing servicers to contact borrowers at an earlier stage of delinquency and improve their telephone communications with borrowers, and holding our servicers accountable for following our requirements. We continue to work with some of our servicers to test and implement high-touch servicing protocols designed for managing higher-risk loans, which include lower ratios of loans per servicer employee, beginning borrower outreach strategies earlier in the delinquency cycle and establishing a single point of resolution for distressed borrowers.

In the following section, we present statistics on our problem loans, describe specific efforts undertaken to manage these loans and prevent foreclosures and provide metrics regarding the performance of our loan workout activities. We generally define single-family problem loans as loans that have been identified as being at imminent risk of payment default; early stage delinquent loans that are either 30 days or 60 days past due; and seriously delinquent loans, which are loans that are three or more monthly payments past due or in the foreclosure process. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan-level information.

Table of Contents

Problem Loan Statistics

The following table displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) as of the periods indicated.

Table 35: Delinquency Status of Single-Family Conventional Loans

		As of	
	March 31, 2011	**December 31, 2010**	**March 31, 2010**
As of period end:			
Delinquency status:			
30 to 59 days delinquent	1.93%	2.32%	2.09%
60 to 89 days delinquent	0.70	0.87	0.90
Seriously delinquent	4.27	4.48	5.47
Percentage of seriously delinquent loans that have been delinquent for more than 180 days	71%	67%	62%

Early Stage Delinquency

The prolonged and severe decline in home prices, coupled with continued high unemployment, caused an overall increase in the number of early stage delinquencies loans that are delinquent but less than three monthly payments past due over the past several years. However, the number of early stage delinquencies has decreased as of March 31, 2011 compared with December 31, 2010.

Serious Delinquency

The number of loans at risk of becoming seriously delinquent has diminished in 2011 as early stage delinquencies have decreased. As of March 31, 2011, the percentage and number of our single-family conventional loans that were seriously delinquent decreased, as compared with December 31, 2010, and has decreased every month since February 2010. The decrease in our serious delinquency rate in 2010 and the first quarter of 2011 was primarily the result of home retention solutions, mainly loan modifications, and foreclosure alternatives completed, combined with foreclosures when a viable solution was not available. The volume of loans impacted by these actions continues to exceed the number of loans becoming seriously delinquent, thereby decreasing our percentage of seriously delinquent loans. The decrease is also attributable to our acquisition of loans with stronger credit profiles in 2010 and the first quarter of 2011.

We expect serious delinquency rates will continue to be affected in the future by changes in economic factors such as home prices, unemployment rates and household wealth, and by the extent to which borrowers with modified loans again become delinquent in their payments.

We continue to work with our servicers to reduce delays in determining and executing the appropriate workout solution. However, the continued negative conditions in the current economic environment, such as the sustained weakness in the housing market and high unemployment, have continued to adversely affect the serious delinquency rates across our single-family conventional guaranty book of business and the serious delinquency rate remains elevated. Additionally, the period of time that loans are seriously delinquent continues to remain extended.

Table 36 provides a comparison, by geographic region and by loans with and without credit enhancement, of the serious delinquency rates as of the periods indicated for single-family conventional loans in our single-family guaranty book of business.

Table of Contents

Table 36: Serious Delinquency Rates

	March 31, 2011		December 31, 2010		March 31, 2010	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Single-family conventional delinquency rates by geographic region:(1)						
Midwest	15%	3.99%	15%	4.16%	16%	4.96%
Northeast	19	4.30	19	4.38	19	4.74
Southeast	24	6.08	24	6.15	24	7.22
Southwest	15	2.73	15	3.05	15	4.17
West	27	3.61	27	4.06	26	5.55
Total single-family conventional loans	100%	4.27%	100%	4.48%	100%	5.47%
Single-family conventional loans:						
Credit enhanced	15%	10.13%	15%	10.60%	17%	13.29%
Non-credit enhanced	85	3.26	85	3.40	83	3.90
Total single-family conventional loans	100%	4.27%	100%	4.48%	100%	5.47%

(1) See footnote 9 to Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business for states included in each geographic region.

While loans across our single-family guaranty book of business have been affected by the weak market conditions, loans in certain states, certain higher-risk loan categories, such as Alt-A loans, subprime loans and loans with higher mark-to-market LTVs, and our 2006 and 2007 loan vintages continue to exhibit higher than average delinquency rates and/or account for a disproportionate share of our credit losses. States in the Midwest have experienced prolonged economic weakness and California, Florida, Arizona and Nevada have experienced the most significant declines in home prices coupled with unemployment rates that remain high.

Table of Contents

Table 37 presents the conventional serious delinquency rates and other financial information for our single-family loans with some of these higher-risk characteristics as of the periods indicated. The reported categories are not mutually exclusive. See Consolidated Results of Operations Credit-Related Expenses Credit Loss Performance Metrics for information on the portion of our credit losses attributable to Alt-A loans and certain other higher-risk loan categories.

Table 37: Single-Family Conventional Serious Delinquency Rate Concentration Analysis

	As of										
	March 31, 2011				December 31, 2010				March 31, 2010		
	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio[1]	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio[1]	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquenc
	(Dollars in millions)										
	$ 70,055	2%	5.16%	110%	$ 71,052	2%	6.23%	105%	$ 74,831	3%	8.76%
	518,569	19	3.35	78	507,598	18	3.89	76	492,294	17	5.72
	182,943	7	12.40	110	184,101	7	12.31	107	192,724	7	13.27
	30,856	1	9.40	133	31,661	1	10.66	128	34,166	1	13.95
vest	294,182	10	4.62	82	292,734	11	4.80	80	302,017	11	5.65
tes	1,718,421	61	3.34	73	1,695,615	61	3.46	71	1,701,543	61	4.19
e:											
	203,709	7	13.45	100	211,770	8	13.87	96	238,325	9	16.22
	6,328	*	27.47	108	6,499	*	28.20	103	7,179	*	31.47
	218,938	8	12.12	109	232,009	8	12.19	104	277,752	10	13.42
	315,420	11	13.08	109	334,110	12	13.24	104	401,782	14	14.85
	2,280,667	81	2.50	72	2,216,642	80	2.62	70	2,118,041	76	3.12
	499,432	18	15.72	130	435,991	16	17.70	130	439,327	16	21.79
sk cs: V core	20,656	1	20.20	113	21,205	1	21.41	109	23,395	1	26.94

* Percentage is less than 0.5%.

(1) Second lien mortgage loans held by third parties are not included in the calculation of the estimated mark-to-market LTV ratios.

(2) Consists of Illinois, Indiana, Michigan and Ohio.

Loan Workout Metrics

The efforts of our mortgage servicers are critical in keeping people in their homes, preventing foreclosures and providing homeowner assistance. We continue to work with our servicers to implement our foreclosure prevention initiatives effectively and to find ways to enhance our workout protocols and their workflow processes. Additionally, partnering with our servicers, civic and community leaders and housing industry partners, we have launched a series of nationwide Mortgage Help Centers to accelerate the response time for struggling borrowers with loans owned by us. As of March 31, 2011, we have established six Mortgage Help Centers which completed approximately 800 home retention plans in the first quarter of 2011.

Table of Contents

Our approach to workouts continues to address the large number of borrowers facing long-term, rather than short-term, financial hardships due to prolonged economic stress and high levels of unemployment. Accordingly, the vast majority of loan modifications we completed during the first quarter of 2011 were, as in recent periods, concentrated on lowering or deferring the borrowers monthly mortgage payments for a predetermined period of time to allow borrowers to work through their hardships.

In addition, we continue to focus on alternatives to foreclosure for borrowers who are unable to retain their homes. Our servicers work with a borrower to sell their home prior to foreclosure in a preforeclosure sale or accept a deed-in-lieu of foreclosure whereby the borrower voluntarily signs over the title to their property to the servicer. These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a foreclosure. Further, in cooperation with several Multiple Listing Services (MLS) across the nation, we developed the Short Sale Assistance Desk (Assistance Desk) to assist real estate professionals in handling post-offer short sale issues that may relate to servicer responsiveness, the existence of a second lien, or issues involving mortgage insurance. The Assistance Desk leverages the relationship between the participating MLSs and their members to collect and submit information to us using a dedicated submission form on the MLS website. Complementing this streamlined service, the participating MLS provides us with data to help improve valuations and make quicker decisions regarding short sale requests. The Assistance Desk is meant to serve as a catalyst for progress towards a resolution for the homeowner.

Table 38 provides statistics on our single-family loan workouts that were completed, by type, for the periods indicated. These statistics include loan modifications but do not include trial modifications or repayment and forbearance plans that have been initiated but not completed.

Table 38: Statistics on Single-Family Loan Workouts

	For the Three Months Ended March 31, 2011		For The Year Ended December 31, 2010		For the Three Months Ended March 31, 2010	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
			(Dollars in millions)			
Home retention strategies:						
Modifications	$ 10,668	51,043	$ 82,826	403,506	$ 19,005	93,756
Repayment plans and forbearances completed	1,374	9,916	4,385	31,579	1,137	8,682
HomeSaver Advance first-lien loans			688	5,191	178	2,588
	$ 12,042	60,959	$ 87,899	440,276	$ 20,320	105,026
Foreclosure alternatives:						
Preforeclosure sales	$ 3,415	15,344	$ 15,899	69,634	$ 3,817	16,457
Deeds-in-lieu of foreclosure	318	1,776	1,053	5,757	158	869
	$ 3,733	17,120	$ 16,952	75,391	$ 3,975	17,326

Total loan workouts	$ 15,775	78,079	$ 104,851	515,667	$ 24,295	122,352
Loan workouts as a percentage of single-family guaranty book of business[(1)]	2.18%	1.73%	3.66%	2.87%	3.38%	2.68%

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

The volume of workouts completed in the first quarter of 2011 decreased compared with the first quarter of 2010, in part because we began to require that certain non-HAMP modifications go through a trial period, which lowered the number of modifications that became permanent. The number of foreclosure alternatives we agreed to during the first quarter of 2011 remains high as these are favorable solutions for a growing number of borrowers. We expect the volume of our foreclosure alternatives to remain high throughout the remainder of 2011.

Table of Contents

During the first quarter of 2011, approximately two-thirds of our loan modifications were completed under HAMP. During the first quarter of 2011, we initiated approximately 31,000 trial modifications under HAMP compared with 92,000 during the first quarter of 2010. We also initiated other types of loan modifications, repayment plans and forbearances. It is difficult to predict how many of these trial modifications and initiated plans will be completed.

Table 39 displays the profile of loan modifications (HAMP and non-HAMP) provided to borrowers for the three months ended March 31, 2011 and the year ended December 31, 2010.

Table 39: Loan Modification Profile

	For the Three Months Ended March 31, 2011	For The Year Ended December 31, 2010
Term extension, interest rate reduction, or combination of both[1]	96%	93%
Initial reduction in monthly payment[2]	94	91
Estimated mark-to-market LTV ratio > 100%	64	53
Troubled debt restructurings	97	94

(1) Reported statistics for term extension, interest rate reduction or the combination include subprime adjustable-rate mortgage loans that have been modified to a fixed-rate loan.

(2) These modification statistics do not include subprime adjustable-rate mortgage loans that were modified to a fixed-rate loan and were current at the time of the modification.

A significant portion of our modifications pertain to loans with a mark-to-market LTV ratio greater than 100% because these borrowers are typically unable to refinance their mortgages or sell their homes for a price that allows them to pay off their mortgage obligation as their mortgages are greater than the value of their homes. Additionally, the serious delinquency rate for these loans tends to be significantly higher than the overall average serious delinquency rate. As of March 31, 2011, the serious delinquency rate for loans with a mark-to-market LTV ratio greater than 100% was 16%, compared with our overall average single-family serious delinquency rate of 4.27%.

Approximately 65% of loans modified during the first quarter of 2010 were current or had paid off as of one year following the loan modification date. In comparison, 39% of loans modified during the first quarter of 2009 were current or had paid off as of one year following the loan modification date. There is significant uncertainty regarding the ultimate long term success of our current modification efforts because of the economic and financial pressures on borrowers. Modifications, even those with reduced monthly payments, may also not be sufficient to help borrowers with second liens and other significant non-mortgage debt obligations. FHFA, other agencies of the U.S. government or Congress may ask us to undertake new initiatives to support the housing and mortgage markets should our current modification efforts ultimately not perform in a manner that results in the stabilization of these markets.

As we have focused our efforts on distressed borrowers who are experiencing current economic hardship, the short-term performance of our workouts may not be indicative of long-term performance. We believe the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and home prices.

Table of Contents

REO Management

Foreclosure and REO activity affect the level of credit losses. Table 40 compares our foreclosure activity, by region, for the periods indicated. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 40: Single-Family Foreclosed Properties

	For the Three Months Ended March 31,	
	2011	**2010**
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	162,489	86,155
Acquisitions by geographic area:[2]		
Midwest	11,285	15,095
Northeast	2,004	3,590
Southeast	10,976	17,748
Southwest	13,666	12,882
West	15,618	12,614
Total properties acquired through foreclosure	53,549	61,929
Dispositions of REO	(62,814)	(38,095)
End of period inventory of single-family foreclosed properties (REO)[1]	153,224	109,989
Carrying value of single-family foreclosed properties (dollars in millions)[3]	$ 14,086	$ 11,423
Single-family foreclosure rate[4]	1.19%	1.36%

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

(2) See footnote 9 to Table 34: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business for states included in each geographic region.

(3) Excludes foreclosed property claims receivables, which are reported in our condensed consolidated balance sheets as a component of Acquired property, net.

(4) Estimated based on the annualized total number of properties acquired through foreclosure as a percentage of the total number of loans in our single-family conventional guaranty book of business as of the end of each respective period.

The continued weak economy, as well as high unemployment rates, continue to result in an increase in the percentage of our mortgage loans that transition from delinquent to REO status, either through foreclosure or deed-in-lieu of foreclosure. Additionally, the prolonged decline in home prices on a national basis has significantly reduced the values of our single-family REO. Our foreclosure rates remain high. However, foreclosure levels were lower than

what they otherwise would have been in the first quarter of 2011 due to the delays caused by servicer foreclosure process deficiencies and the resulting foreclosure pause. Additionally, foreclosure levels during 2010 were affected by our directive to servicers to delay foreclosure sales until the loan servicer verifies that the borrower is ineligible for a HAMP modification and that all other home retention and foreclosure prevention alternatives have been exhausted.

The percentage of our properties that we are unable to market for sale remains high. The most common reasons for our inability to market properties for sale are: (1) properties are within the period during which state law allows the former mortgagor and second lien holders to redeem the property (states which allow this are known as redemption states); (2) properties are still occupied by the person or personal property and the eviction process is not yet complete (occupied status); or (3) properties are being repaired. As we are unable to market a higher portion of our inventory, it slows the pace at which we can dispose of our properties and increases our foreclosed property expense related to costs associated with ensuring that the property is vacant and maintaining the property. For example, as of March 31, 2011, approximately 25% compared with 27% as of December 31, 2010, of our properties that we were unable to market for sale were in redemption status, which lengthens the time a property is in our REO inventory by an average of three to six months.

Table of Contents

Additionally, as of March 31, 2011, approximately 39% compared with 40% as of December 31, 2010, of our properties that we were unable to market for sale were in occupied status, which lengthens the time a property is in our REO inventory by an average of one to three months.

As shown in Table 41 we have experienced a disproportionate share of foreclosures in certain states as compared with their share of our guaranty book of business. This is primarily because these states have had significant home price depreciation or weak economies, and in the case of California and Florida specifically, a significant number of Alt-A loans.

Table 41: Single-Family Acquired Property Concentration Analysis

	As of		For the Three Months Ended	
	March 31, 2011	December 31, 2010	March 31, 2011	March 31, 2010
	Percentage of Book Outstanding[1]	Percentage of Book Outstanding[1]	Percentage of Properties Acquired by Foreclosure[2]	Percentage of Properties Acquired by Foreclosure[2]
States:				
Arizona, California, Florida, and Nevada	29%	28%	39%	36%
Illinois, Indiana, Michigan, and Ohio	10	11	17	19

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

(2) Calculated based on the number of properties acquired through foreclosure during the period divided by the total number of properties acquired through foreclosure.

We continue to work with our servicers to manage our foreclosure timelines and although we have expanded our loan workout initiatives to help borrowers stay in their homes, our foreclosure levels for the first quarter of 2011 remain high as a result of the continued adverse impact that the weak economy and high unemployment have had on the financial condition of borrowers. Although the foreclosure pause has negatively affected our foreclosure timelines and reduced the number of new REO acquisitions, we cannot yet predict the full impact of the pause.

Multifamily Mortgage Credit Risk Management

The credit risk profile of our multifamily mortgage credit book of business is influenced by: the structure of the financing; the type and location of the property; the condition and value of the property; the financial strength of the borrower and lender; market and sub-market trends and growth; and the current and anticipated cash flows from the property. 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. We provide information on our credit-related expenses and credit

losses in Consolidated Results of Operations Credit-Related Expenses.

While our multifamily mortgage credit book of business includes all of our multifamily mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae multifamily mortgage-related securities held in our portfolio for which we do not provide a guaranty. Our multifamily guaranty book of business consists of: multifamily mortgage loans held in our mortgage portfolio; Fannie Mae MBS held in our portfolio or by third parties; and other credit enhancements that we provide on mortgage assets.

The credit statistics reported below, unless otherwise noted, pertain only to a specific portion of our multifamily guaranty book of business for which we have access to detailed loan-level information. 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. The portion of our multifamily guaranty book of business for which we have detailed loan level-information, excluding loans that have been defeased, constituted 99% of our total multifamily guaranty book as of both March 31, 2011 and December 31, 2010.

See Risk Factors in our 2010 Form 10-K for a discussion of the risk due to our reliance on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business.

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business, in conjunction with our Enterprise Risk Management division, is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our portfolio or held by third parties). Our primary multifamily delivery channel is the Delegated Underwriting and Servicing (DUS) program, which is comprised of multiple lenders that span the spectrum from large financial institutions to smaller independent multifamily lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing depending on the product type and/or loan size. Loans delivered to us by DUS lenders and their affiliates represented 84% of our multifamily guaranty book of business as of March 31, 2011 and December 31, 2010.

We use various types of credit enhancement arrangements for our multifamily loans, including lender risk-sharing, lender repurchase agreements, pool insurance, subordinated participations in mortgage loans or structured pools, cash and letter of credit collateral agreements, and cross-collateralization/cross-default provisions. The most prevalent form of credit enhancement on multifamily loans is lender risk-sharing. Lenders in the DUS program typically share in loan-level credit losses in one of two ways: (1) they bear losses up to the first 5% of unpaid principal balance of the loan and share in remaining losses up to a prescribed limit; or (2) they share up to one-third of the credit losses on an equal basis with us. Other lenders typically share or absorb credit losses based on a negotiated percentage of the loan or the pool balance.

Multifamily Portfolio Diversification and Monitoring

Diversification within our multifamily mortgage credit book of business by geographic concentration, term-to-maturity, interest rate structure, borrower concentration and credit enhancement arrangements is an important factor that influences credit quality and performance and helps reduce our credit risk.

The weighted average original LTV ratio for our multifamily guaranty book of business was 66% as of March 31, 2011 and 67% as of December 31, 2010. The percentage of our multifamily guaranty book of business with an original LTV ratio greater than 80% was 5% as of both March 31, 2011 and December 31, 2010. We present the current risk profile of our multifamily guaranty book of business in Note 6, Financial Guarantees.

We monitor the performance and risk concentrations of our multifamily loans and the underlying properties on an ongoing basis throughout the life of the investment at the loan, property and portfolio level. We closely track the physical condition of the property, the relevant local market and economic conditions that may signal changing risk or return profiles and other risk factors. For example, we closely monitor the rental payment trends and vacancy levels in local markets to identify loans that merit closer attention or loss mitigation actions. We are managing our exposure to refinancing risk for multifamily loans maturing in the next several years. We have a team that proactively manages upcoming loan maturities to minimize losses on maturing loans. This team assists lenders and borrowers with timely and appropriate refinancing of maturing loans with the goal of reducing defaults and foreclosures related to loans maturing in the near term. For our investments in multifamily loans, the primary asset management responsibilities are performed by our DUS and other multifamily lenders. We periodically evaluate the performance of our third-party service providers for compliance with our asset management criteria.

Problem Loan Management and Foreclosure Prevention

Unfavorable economic conditions have caused our multifamily serious delinquency rate and the level of defaults to remain elevated. Since delinquency rates are a lagging indicator, even if the market shows some improvement, we expect to incur additional credit losses. We periodically refine our underwriting standards in response to market conditions and enact proactive portfolio management and monitoring which are each designed to keep credit losses to a low level relative to our multifamily guaranty book of business.

Table of Contents

Problem Loan Statistics

Table 42 provides a comparison of our multifamily serious delinquency rates for loans with and without credit enhancement in our multifamily guaranty book of business. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due. We include the unpaid principal balance of multifamily loans that we own or that back Fannie Mae MBS and any housing bonds for which we provide credit enhancement in the calculation of the multifamily serious delinquency rate.

Table 42: Multifamily Serious Delinquency Rates

	March 31, 2011		As of December 31, 2010		March 31, 2010	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Multifamily loans:						
Credit enhanced	90%	0.59%	89%	0.67%	89%	0.69%
Non-credit enhanced	10	1.05	11	1.01	11	1.56
Total multifamily loans	100%	0.64%	100%	0.71%	100%	0.79%

The multifamily serious delinquency rate decreased as of March 31, 2011 compared with both December 31, 2010 and March 31, 2010 as national multifamily market fundamentals continue to improve. Table 43 provides a comparison of our multifamily serious delinquency rates for loans acquired through DUS lenders and loans acquired through non-DUS lenders.

Table 43: Multifamily Concentration Analysis

	March 31, 2011		As of December 31, 2010		March 31, 2010		Percentage of Multifamily Credit Losses For the Three Months Ended March 31,	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	2011	2010
DUS small balance loans[1]	8%	0.68%	8%	0.55%	8%	0.47%	8%	12%
DUS non small balance loans[2]	70	0.48	70	0.56	68	0.56	70	72
	10	1.41	10	1.47	11	1.41	15	11

Non-DUS small balance loans[1]								
Non-DUS non small balance loans[2]	12	0.88	12	0.97	13	1.62	7	5

[1] Loans with original unpaid principal balances less than or equal to $3 million except in high cost markets where they are loans with original unpaid principal balances less than or equal to $5 million.

[2] Loans with original unpaid principal balances greater than $3 million except in high cost markets where they are loans with original unpaid principal balances greater than $5 million.

The DUS loans in our guaranty book of business have lower delinquency rates when compared with the non-DUS loans in our guaranty book primarily due to the DUS model, which has several features that align our interest with those of the borrowers and lenders. Smaller balance non-DUS loans continue to represent a disproportionate share of delinquencies but they are generally covered by loss sharing arrangements, which limit the credit losses incurred by us.

In addition, Arizona, Florida, Georgia, and Ohio, have a disproportionate share of seriously delinquent loans compared with their share of the multifamily guaranty book of business as a result of slow economic recovery in certain areas of these states. These states accounted for 39% of multifamily serious delinquencies but only 10% of the multifamily guaranty book of business.

Table of Contents

REO Management

Foreclosure and REO activity affect the level of credit losses. Table 44 compares our held for sale multifamily REO balances for the periods indicated.

Table 44: Multifamily Foreclosed Properties

	For the Three Months Ended March 31,	
	2011	**2010**
Multifamily foreclosed properties (number of properties):		
Beginning of period inventory of multifamily foreclosed properties (REO)	222	73
Total properties acquired through foreclosure	50	47
Disposition of REO	(37)	(13)
End of period inventory of multifamily foreclosed properties (REO)	235	107
Carrying value of multifamily foreclosed properties (dollars in millions)	$ 576	$ 319

The increase in our multifamily foreclosed property inventory reflects the continuing stress on our multifamily guaranty book of business as certain local markets and properties continue to exhibit weak fundamentals, though national multifamily market fundamentals improved in 2011.

Institutional Counterparty Credit Risk Management

We rely on our institutional counterparties to provide services and credit enhancements, including primary and pool mortgage insurance coverage, risk sharing agreements with lenders and financial guaranty contracts that are critical to our business. Institutional counterparty credit risk is the risk that these institutional counterparties may fail to fulfill their contractual obligations to us, including seller/servicers who are obligated to repurchase loans from us or reimburse us for losses in certain circumstances. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

See MD&A Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management in our 2010 Form 10-K for additional information about our institutional counterparties, including counterparty risk we face from mortgage originators and investors, from debt security and mortgage dealers and from document custodians.

Mortgage Seller/Servicers

Our business with our mortgage seller/servicers is concentrated. Our ten largest single-family mortgage servicers, including their affiliates, serviced 76% of our single-family guaranty book of business as of March 31, 2011, compared to 77% as of December 31, 2010. Our largest mortgage servicer is Bank of America which, together with its affiliates, serviced approximately 25% of our single-family guaranty book of business as of March 31, 2011, compared with 26% as of December 31, 2010. In addition, we had two other mortgage servicers, JPMorgan Chase & Co. and Wells Fargo Bank, N.A., that, with their affiliates, each serviced over 10% of our single-family guaranty book of business as of March 31, 2011. In addition, Wells Fargo Bank serviced over 10% of our multifamily guaranty book

of business as of both March 31, 2011 and December 31, 2010. Because we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, servicers lack of appropriate process controls or the loss of business from a significant mortgage servicer counterparty could pose significant risks to our ability to conduct our business effectively.

During the first quarter of 2011, our primary mortgage servicer counterparties have generally continued to meet their obligations to us. The large number of delinquent loans on their books of business may negatively affect the ability of these counterparties to continue to meet their obligations to us in the future.

Our mortgage seller/servicers are obligated to repurchase loans or foreclosed properties, or reimburse us for losses if the foreclosed property has been sold, under certain circumstances, such as if it is determined that the mortgage loan did not meet our underwriting or eligibility requirements, if loan representations and warranties are violated or if mortgage insurers rescind coverage. We refer to our demands that seller/servicers meet these obligations collectively as repurchase requests. During the first quarter of 2011, the number of our repurchase requests remained high. The aggregate unpaid principal balance of loans repurchased by our seller/servicers pursuant to their contractual obligations was approximately $1.6 billion, compared to $1.8 billion during the first quarter of 2010. In addition, as of March 31, 2011, we had $8.6 billion in outstanding repurchase requests related to loans that had been reviewed for potential breaches of contractual obligations, compared to $5.0 billion as of December 31, 2010. As of March 31, 2011, approximately 58% of our total outstanding repurchase requests had been made to one of our seller/servicers, compared to 41% as of December 31, 2010. As of March 31, 2011, 20% of our outstanding repurchase requests had been outstanding for more than 120 days from either the original loan repurchase request date or, for lenders remitting after the REO is disposed, the date of our final loss determination, compared to 30% as of December 31, 2010.

The amount of our outstanding repurchase requests provided above is based on the unpaid principal balance of the loans underlying the repurchase request issued, not the actual amount we have requested from the lenders. In some cases, we allow lenders to remit payment equal to our loss, including imputed interest, on the loan after we have disposed of the REO, which is less than the unpaid principal balance of the loan. As a result, we expect our actual cash receipts relating to these outstanding repurchase requests to be significantly lower than this amount. In addition, amounts relating to repurchase requests originating from missing documentation or loan files are excluded from the total requests outstanding until the completion of a full underwriting review, once the documents and loan files are received.

We continue to work with our mortgage seller/servicers to fulfill outstanding repurchase requests; however, as the volume of repurchase requests increases, the risk increases that affected seller/servicers will not be willing or able to meet the terms of their repurchase obligations and we may be unable to recover on all outstanding loan repurchase obligations resulting from seller/servicers breaches of contractual obligations. If a significant seller/servicer counterparty, or a number of seller/servicer counterparties, fails to fulfill its repurchase obligations to us, it could result in a significant increase in our credit losses and have a material adverse effect on our results of operations and financial condition. We expect that the amount of our outstanding repurchase requests could remain high in 2011.

We are exposed to the risk that a mortgage seller/servicer or another party involved in a mortgage loan transaction will engage in mortgage fraud by misrepresenting the facts about the loan. We have experienced financial losses in the past and may experience significant financial losses and reputational damage in the future as a result of mortgage fraud. See Risk Factors in our 2010 Form 10-K for additional discussion on risks of mortgage fraud to which we are exposed.

Mortgage Insurers

We use several types of credit enhancement to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Mortgage insurance risk in force represents our maximum potential loss recovery under the applicable mortgage insurance policies. We had total mortgage insurance coverage risk in force of $94.8 billion on the single-family mortgage loans in our guaranty book of business as of March 31, 2011, which represented approximately 3% of our single-family guaranty book of business as of March 31, 2011. Primary mortgage insurance represented $90.2 billion of this total, and pool mortgage insurance was $4.6 billion. We had total mortgage insurance coverage risk in force of $95.9 billion on the single-family mortgage loans in our guaranty book of business as of December 31, 2010, which represented approximately 3% of our single-family guaranty book of business as of December 31, 2010. Primary mortgage insurance represented $91.2 billion of this total, and pool mortgage insurance was $4.7 billion of this total.

Table of Contents

Table 45 presents our maximum potential loss recovery for the primary and pool mortgage insurance coverage on single-family loans in our guaranty book of business by mortgage insurer for our top eight mortgage insurer counterparties as of March 31, 2011. These mortgage insurers provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of March 31, 2011.

Table 45: Mortgage Insurance Coverage

	As of March 31, 2011 Maximum Coverage[2]		
Counterparty:[1]	**Primary**	**Pool**	**Total**
	(Dollars in millions)		
Mortgage Guaranty Insurance Corporation	$ 21,073	$ 1,781	$ 22,854
Radian Guaranty, Inc.	14,956	339	15,295
Genworth Mortgage Insurance Corporation	14,080	76	14,156
United Guaranty Residential Insurance Company	13,779	172	13,951
PMI Mortgage Insurance Co.	11,901	289	12,190
Republic Mortgage Insurance Company	9,317	1,206	10,523
Triad Guaranty Insurance Corporation	2,877	779	3,656
CMG Mortgage Insurance Company[3]	1,940		1,940

(1) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated affiliates and subsidiaries of the counterparty.

(2) Maximum coverage refers to the aggregate dollar amount of insurance coverage (*i.e.*, risk in force) on single-family loans in our guaranty book of business and represents our maximum potential loss recovery under the applicable mortgage insurance policies.

(3) CMG Mortgage Insurance Company is a joint venture owned by PMI Mortgage Insurance Co. and CUNA Mutual Insurance Society.

The current weakened financial condition of our mortgage insurer counterparties creates an increased risk that these counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. A number of our mortgage insurers have received waivers from their regulators regarding state-imposed risk-to-capital limits. Without these waivers, these mortgage insurers would not be able to continue to write new business in accordance with state regulatory requirements, should they fall below their regulatory capital requirements. In anticipation that a waiver may not be granted or continued by their regulator, at least one of our mortgage insurers arranged for another mortgage insurer subsidiary or affiliate to write new business on its behalf. The parent companies of several of our largest mortgage insurer counterparties raised capital, which may improve their ability to meet state-imposed risk-to-capital limits and their ability to continue paying our claims in full as they come due, to the extent that the capital raised by the parent companies is contributed to their respective mortgage insurance entities. Though we are unable to determine how long certain of our mortgage insurer counterparties will remain below their state-imposed risk-to-capital limits, at this time we continue to receive payments on our claims as they come due, except where deferred payment terms have been established.

Our mortgage insurer counterparties have increased the number of mortgage loans for which they have rescinded coverage. In those cases where mortgage insurance was obtained and the mortgage insurer has rescinded coverage, we

generally require the seller/servicer to repurchase the loan or indemnify us against loss.

In 2010, some mortgage insurers disclosed that they entered into agreements with lenders whereby they agreed to waive certain rights to investigate claims for some of the lenders insured loans in return for some compensation against loss. Although these agreements do not affect our rights to demand repurchase in the event of violations of lender representations and warranties, these agreements are likely to result in fewer mortgage insurance rescissions for certain groups of loans. Fewer rescissions may result in Fannie Mae devoting more resources to an independent review process to determine whether loans subject to these agreements have underlying origination defects.

Table of Contents

In April 2011, we issued an announcement which prohibited servicers from entering into any agreement that modifies the terms of an approved mortgage insurance master policy on loans delivered to us. We also required servicers to disclose any such agreements with mortgage insurers to us. With respect to our mortgage insurance counterparties, changes to the substance of their master policies have required our prior approval since 2005. In October 2010, we required our top mortgage insurers to notify us promptly of any agreement that affects their investigative or rescission rights. In April 2011, we further clarified and amended our mortgage insurer requirements to prohibit any agreement that has the effect of modifying a master policy, including any investigative or rescission rights, absent our approval. By taking these steps, we hope to mitigate the risk of loss for loans that would have resulted in mortgage insurance rescission, and as a result a lender repurchase, for loan defects that we may not have otherwise uncovered in our independent review process.

Besides evaluating their condition to assess whether we have incurred probable losses in connection with our coverage, we also evaluate these counterparties individually to determine whether or under what conditions they will remain eligible to insure new mortgages sold to us. Except for Triad Guaranty Insurance Corporation, as of May 6, 2011, our private mortgage insurer counterparties remain qualified to conduct business with us.

As of March 31, 2011, our allowance for loan losses of $67.6 billion, allowance for accrued interest receivable of $2.9 billion and reserve for guaranty losses of $257 million incorporated an estimated recovery amount of approximately $16.5 billion from mortgage insurance related both to loans that are individually measured for impairment and those that are collectively reserved. This amount is comprised of the contractual recovery of approximately $17.4 billion as of March 31, 2011 and an adjustment of approximately $975 million which reduces the contractual recovery for our assessment of our mortgage insurer counterparties inability to fully pay those claims. As of December 31, 2010, our allowance for loan losses of $61.6 billion, allowance for accrued interest receivable of $3.4 billion and reserve for guaranty losses of $323 million incorporated an estimated recovery amount of approximately $16.4 billion from mortgage insurance related both to loans that are individually measured for impairment and those that are collectively reserved. This amount is comprised of the contractual recovery of approximately $17.5 billion as of December 31, 2010 and an adjustment of approximately $1.2 billion, which reduces the contractual recovery for our assessment of our mortgage insurer counterparties inability to fully pay those claims.

When an insured loan held in our mortgage portfolio subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds insurance coverage, the initial receivable becomes due from the mortgage seller/servicer. We had outstanding receivables of $4.1 billion as of March 31, 2011 and $4.4 billion as of December 31, 2010 related to amounts claimed on insured, defaulted loans that we have not yet received, of which $650 million as of March 31, 2011 and $648 million as of December 31, 2010 was due from our mortgage seller/servicers. We assessed the receivables for collectibility, and they were recorded net of a valuation allowance of $271 million as of March 31, 2011 and $317 million as of December 31, 2010 in Other assets. These mortgage insurance receivables are short-term in nature, having a duration of approximately three to six months, and the valuation allowance reduces our claim receivable to the amount that we consider probable of collection. We received proceeds under our primary and pool mortgage insurance policies for single-family loans of $1.6 billion for the first quarter of 2011 and $6.4 billion for the year ended December 31, 2010.

Financial Guarantors

We were the beneficiary of financial guarantees totaling $8.6 billion as of March 31, 2011 and $8.8 billion as of December 31, 2010 on securities held in our investment portfolio or on securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The securities covered by these guarantees consist primarily of private-label mortgage-related securities and mortgage revenue bonds. We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled

$23.9 billion as of March 31, 2011 and $25.7 billion as of December 31, 2010.

Table of Contents

With the exception of Ambac Assurance Corporation, none of our financial guarantor counterparties has failed to repay us for claims under guaranty contracts. However, based on the stressed financial condition of our financial guarantor counterparties, we believe that one or more of our financial guarantor counterparties may not be able to fully meet their obligations to us in the future. We model our securities assuming the benefit of those external financial guarantees from guarantors that we determine are creditworthy. For additional discussions of our model methodology and key inputs used to estimate other-than-temporary impairment see Note 5, Investments in Securities.

Lenders with Risk Sharing

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $14.8 billion as of March 31, 2011 and $15.6 billion as of December 31, 2010. As of March 31, 2011, 55% of our maximum potential loss recovery on single-family loans was from three lenders. As of December 31, 2010, 56% of our maximum potential loss recovery on single-family loans was from three lenders. Our maximum potential loss recovery from lenders under these risk sharing agreements on multifamily loans was $30.7 billion as of March 31, 2011 and $30.3 billion as of December 31, 2010. As of both March 31, 2011 and December 31, 2010, 41% of our maximum potential loss recovery on multifamily loans was from three lenders.

Unfavorable market conditions have adversely affected, and continue to adversely affect, the liquidity and financial condition of our lender counterparties. The percentage of single-family recourse obligations to lenders with investment grade credit ratings (based on the lower of Standard & Poor s, Moody s and Fitch ratings) was 46% as of both March 31, 2011 and December 31, 2010. The percentage of these recourse obligations to lender counterparties rated below investment grade was 23% as of both March 31, 2011 and December 31, 2010. The remaining percentage of these recourse obligations were to lender counterparties that were not rated by rating agencies, which was 31% as of both March 31, 2011 and December 31, 2010. Given the stressed financial condition of some of our lenders, we expect in some cases we will recover less, perhaps significantly less, than the amount the lender is obligated to provide us under our risk sharing arrangement with them. Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations.

As noted above in Multifamily Credit Risk Management, our primary multifamily delivery channel is our DUS program, which is comprised of lenders that span the spectrum from large depositories to independent non-bank financial institutions. As of March 31, 2011, approximately 54% of the unpaid principal balance of loans in our guaranty book of business was serviced by our DUS lenders, which are institutions with an external investment grade credit rating or a guarantee from an affiliate with an external investment grade credit rating. Given the recourse nature of the DUS program, the lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a highly rated custodian to secure a portion of the lenders future obligations. To ensure the level of risk associated with these lenders remains within our standards, we actively monitor their financial condition.

Custodial Depository Institutions

A total of $47.9 billion in deposits for single-family payments were received and held by 287 institutions in the month of March 2011 and a total of $75.4 billion in deposits for single-family payments were received and held by 289 institutions in the month of December 2010. Of these total deposits, 93% as of March 31, 2011 and 92% as of December 31, 2010 were held by institutions rated as investment grade by Standard & Poor s, Moody s and Fitch. Our ten largest custodial depository institutions held 93% of these deposits as of both March 31, 2011 and December 31, 2010.

Issuers of Investments Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio primarily consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements, U.S. Treasury securities and

asset-backed securities. See Liquidity and Capital Management Liquidity Management Cash and Other Investments Portfolio for more detailed information on our cash and other investments portfolio. Our counterparty risk is primarily with financial institutions and Treasury.

Our cash and other investments portfolio, which totaled $79.6 billion as of March 31, 2011, included $32.5 billion of U.S. Treasury securities and $10.8 billion of unsecured positions. All of our unsecured positions were short-term deposits with financial institutions that had short-term credit ratings of A-1, P-1, F1 (or its equivalent) or higher from Standard & Poor s, Moody s and Fitch ratings, respectively. As of December 31, 2010, our cash and other investments portfolio totaled $61.8 billion and included $31.5 billion of U.S. Treasury securities and $10.3 billion of unsecured positions. All of our unsecured positions were short-term deposits with financial institutions which had short-term credit ratings of A-1, P-1, F1 (or equivalent) or higher from Standard & Poor s, Moody s and Fitch ratings, respectively.

Derivatives Counterparties

Our derivative credit exposure relates principally to interest rate and foreign currency derivatives contracts. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position by counterparty where the right of legal offset exists, such as master netting agreements, and by transaction where the right of legal offset does not exist. Derivatives in a gain position are included in our condensed consolidated balance sheets in Other assets. We manage our exposure to derivatives counterparties by requiring collateral in specified instances.

Our net credit exposure on derivatives contracts decreased to $104 million as of March 31, 2011, from $152 million as of December 31, 2010. We had outstanding interest rate and foreign currency derivative transactions with 15 counterparties as of March 31, 2011 and December 31, 2010. Derivatives transactions with nine of our counterparties accounted for approximately 91% of our total outstanding notional amount as of March 31, 2011, with each of these counterparties accounting for between approximately 5% and 16% of the total outstanding notional amount. In addition to the 15 counterparties with whom we had outstanding notional amounts as of March 31, 2011, we had a master netting agreement with one more counterparty with whom we may enter into interest rate derivative or foreign currency derivative transactions in the future.

See Note 9, Derivative Instruments for information on the outstanding notional amount and additional information on our risk management derivative contracts as of March 31, 2011 and December 31, 2010. See Risk Factors in our 2010 Form 10-K for a discussion of the risks to our business posed by interest rate risk and a discussion of the risks to our business as a result of the increasing concentration of our derivatives counterparties.

Market Risk Management, Including Interest Rate Risk Management

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss in value or expected future earnings that may result from changes to interest rates. Spread risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. We describe our sources of interest rate risk exposure and our strategy for managing interest rate risk and spread risk in MD&A Risk Management Market Risk Management, Including Interest Rate Risk Management in our 2010 Form 10-K.

Measurement of Interest Rate Risk

Below we present two quantitative metrics that provide estimates of our interest rate exposure: (1) fair value sensitivity of net portfolio to changes in interest rate levels and slope of yield curve; and (2) duration gap. The metrics

presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current

mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

Interest Rate Sensitivity to Changes in Interest Rate Level and Slope of Yield Curve

As part of our disclosure commitments with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from the following hypothetical situations:

A 50 basis point shift in interest rates.

A 25 basis point change in the slope of the yield curve.

In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve.

In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift of 16.7 basis points for the 1-year rate and 8.3 basis points for the 30-year rate. We believe the aforementioned interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period.

Duration Gap

Duration gap measures the price sensitivity of our assets and liabilities to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap analysis reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest rate scenarios to the estimated cash flows of our liabilities. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities. We disclose duration gap on a monthly basis under the caption Interest Rate Risk Disclosures in our Monthly Summaries, which are available on our website and announced in a press release.

The sensitivity measures presented in Table 46, which we disclose on a quarterly basis as part of our disclosure commitments with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

In addition, Table 46 also provides the average, minimum, maximum and standard deviation for duration gap and for the most adverse market value impact on the net portfolio for non-parallel and parallel interest rate shocks for the three months ended March 31, 2011.

Table 46: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve[1]

	As of March 31, 2011	As of December 31, 2010
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$ (0.2)	$ (0.8)
-50 basis points		(0.2)
+50 basis points	(0.1)	(0.2)
+100 basis points	(0.3)	(0.5)
Rate slope shock:		
-25 basis points (flattening)		(0.1)
+25 basis points (steepening)		0.1

	For the Three Months Ended March 31, 2011		
	Duration Gap	Rate Slope Shock 25 Bps	Rate Level Shock 50 Bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	0.4	$ 0.1	$ 0.2
Minimum	(0.4)		0.1
Maximum	0.8	0.2	0.4
Standard deviation	0.2		0.1

[1] Computed based on changes in LIBOR swap rates.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuance, which includes callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 47 shows an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

Table 47: Derivative Impact on Interest Rate Risk (50 Basis Points)

	Before Derivatives	After Derivatives	Effect of Derivatives

		(Dollars in billions)	
As of March 31, 2011	$ (1.3)	$ (0.1)	$ 1.2
As of December 31, 2010	$ (0.9)	$ (0.2)	$ 0.7

Other Interest Rate Risk Information

The interest rate risk measures discussed above exclude the impact of changes in the fair value of our net guaranty assets resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments.

In MD&A Risk Management Market Risk Management, Including Interest Rate Risk Management Measurement of Interest Rate Risk Other Interest Rate Risk Information in our 2010 Form 10-K, we provided additional interest rate sensitivities including separate disclosure of the potential impact on the fair value of our trading assets and other financial instruments. As of March 31, 2011, these sensitivities were relatively unchanged as compared with December 31, 2010. The fair value of our trading financial instruments and our other financial instruments as of March 31, 2011 and December 31, 2010 can be found in Note 13, Fair Value.

Table of Contents

Liquidity Risk Management

See Liquidity and Capital Management Liquidity Management for a discussion on how we manage liquidity risk.

IMPACT OF FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

We identify and discuss the expected impact on our condensed consolidated financial statements of recently issued accounting pronouncements in Note 1, Summary of Significant Accounting Policies.

FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (Exchange Act). In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as expect, anticipate, intend, plan, believe, seek, estimate, forecast, project, wo likely, may, or similar words.

Among the forward-looking statements in this report are statements relating to:

Our expectation that loans in our new single-family book of business will be profitable over their lifetime;

Our estimate that, while single-family loans that we acquired from 2005 through 2008 will give rise to additional credit losses that we have not yet realized, we have reserved for the substantial majority of the remaining losses;

Our expectation that, 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 if the market shifts away from refinance activity, which is likely to occur when interest rates rise;

Our belief that loans we have acquired since 2009 would become unprofitable if home prices declined by more than 15% from their March 2011 levels over the next five years based on our home price index;

Our expectations regarding whether loans we acquired in specific years will be profitable or unprofitable, or perform close to break-even;

The possibility that changes in home prices, other economic conditions or borrower behavior could change our expectations regarding whether loans we acquired in 2004 will be profitable;

Our expectation that defaults on loans we acquired from 2005 through 2008 and the resulting charge-offs will occur over a period of years;

Our expectation that it will take years before our REO inventory is reduced to pre-2008 levels;

Our expectation that we will realize as credit losses an estimated two-thirds of the fair value losses on loans purchased out of MBS trusts that are reflected in our condensed consolidated balance sheets, and recover the remaining one-third through our condensed consolidated results of operations, depending primarily on changes in home prices and loss severity;

Our expectation that employment will likely need to post sustained improvement for an extended period to have a positive impact on housing;

Our expectation that weakness in the housing and mortgage markets will continue in 2011;

Our expectation that home sales are unlikely to increase until the unemployment rate improves further;

Table of Contents

Our expectation that single-family default and severity rates, as well as the level of single-family foreclosures, will remain high in 2011;

Our expectation that multifamily charge-offs in 2011 will remain commensurate with 2010 levels as certain local markets and properties continue to exhibit weak fundamentals;

Our expectation that the pace of our loan acquisitions for the remainder of 2011 will be significantly lower than in 2010 and the first quarter of 2011 because we expect increasing mortgage rates and, to a lesser extent, the high number of mortgages that have already refinanced to low rates in recent years will lead to fewer refinancings;

Our expectation that our future revenues will be negatively impacted to the extent our acquisitions decline and we receive fewer risk-based fees;

Our estimation that total originations in the U.S. single-family mortgage market in 2011 will decrease from 2010 levels by approximately one-third, from an estimated $1.5 trillion to an estimated $1.0 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decline from approximately $1.1 trillion to approximately $413 billion;

Our expectation that home prices on a national basis will decline further, with greater declines in some geographic areas than others, before stabilizing in late 2011;

Our expectation that the peak-to-trough home price decline on a national basis will range between 22% and 29%, as compared with our expectation at the time we filed our 2010 Form 10-K that the peak-to-trough home price decline on a national basis would range between 21% and 26%;

Our expectation that our credit-related expenses and our credit losses will be higher in 2011 than in 2010;

Our expectation that we will not earn profits in excess of our annual dividend obligation to Treasury for the indefinite future;

Our expectation that Congress will continue to hold hearings and consider legislation in 2011 on the future status of Fannie Mae and Freddie Mac;

Our expectation that, as drafted, bills introduced in Congress 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 to be not financially viable, to place them into receivership 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 their existing and ongoing liabilities;

Our expectation that we will continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, servicer capacity, and other constraints, including the limit on mortgage assets that we may own pursuant to the senior preferred stock purchase agreement;

Our expectation that our mortgage portfolio will 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;

Our expectation that the current market premium portion of our current estimate of fair value will not impact future Treasury draws, which is based on our intention not to have another party assume the credit risk inherent in

our book of business;

Our expectation that our debt funding needs will decline in future periods as we reduce the size of our mortgage portfolio in compliance with the requirements of the senior preferred stock purchase agreement;

Our expectation that our acquisitions of Alt-A mortgage loans will continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time;

Our expectation that serious delinquency rates will continue to be affected in the future by changes in economic factors such as home prices, unemployment rates and household wealth, and by the extent to which borrowers with modified loans again become delinquent in their payments;

Our expectation that the volume of our foreclosure alternatives will remain high throughout the remainder of 2011;

Our belief that the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and home prices;

Our expectation that the amount of our outstanding repurchase requests to seller/servicers could remain high in 2011;

The possibility that, in light of agreements by mortgage insurers with lenders to waive certain rights to investigate claims, fewer rescissions of mortgage insurance may result in our devoting more resources to an independent review process to determine whether there are underlying origination defects in loans subject to these agreements;

Our belief that one or more of our financial guarantor counterparties may not be able to fully meet their obligations to us in the future;

Our expectation that we will continue to need funding from Treasury to avoid triggering FHFA s obligation to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC;

Our belief 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; and

Our expectation that the pause in foreclosures as a result of servicer foreclosure process deficiencies will likely continue to result in longer foreclosure timelines and higher credit-related expenses.

Forward-looking statements reflect our management s expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to the following: the uncertainty of our future; legislative and regulatory changes affecting us; challenges we face in retaining and hiring qualified employees; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; limitations on our ability to access the debt capital markets; further disruptions in the housing and credit markets; defaults by one or more institutional counterparties; our reliance on mortgage servicers; deficiencies in servicer and law firm foreclosure processes and the consequences of those deficiencies; guidance by the Financial Accounting Standards Board (FASB); operational control weaknesses; our reliance on models; the level and volatility of interest rates and credit spreads; changes in the structure and regulation of the financial services industry; and those factors described in Risk Factors in this report and in our 2010 Form 10-K, as well as the factors described in Executive Summary Providing Liquidity, Our Strong New Book of Business and Our Expected Losses on our Legacy Book of Loans Acquired before 2009 Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations

in this report.

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in Risk Factors in our 2010 Form 10-K and in this report. Our forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement because of new information, future events or otherwise, except as required under the federal securities laws.

Table of Contents

Item 1. Financial Statements

FANNIE MAE
(In conservatorship)

Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in millions, except share amounts)

	As of	
	March 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents (includes $717 and $348, respectively, related to consolidated trusts)	$ 19,831	$ 17,297
Restricted cash (includes $33,405 and $59,619, respectively, related to consolidated trusts)	36,730	63,678
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,250	11,751
Investments in securities:		
Trading, at fair value (includes $21 as of both periods related to consolidated trusts)	57,035	56,856
Available-for-sale, at fair value (includes $1,678 and $1,055, respectively, related to consolidated trusts)	89,613	94,392
Total investments in securities	146,648	151,248
Mortgage loans:		
Loans held for sale, at lower of cost or fair value (includes $1,055 and $661, respectively, related to consolidated trusts)	1,414	915
Loans held for investment, at amortized cost:		
Of Fannie Mae	402,352	407,228
Of consolidated trusts (includes $2,969 and $2,962, respectively, at fair value and loans pledged as collateral that may be sold or repledged of $2,241 and $2,522, respectively)	2,613,848	2,577,133
Total loans held for investment	3,016,200	2,984,361
Allowance for loan losses	(67,557)	(61,556)
Total loans held for investment, net of allowance	2,948,643	2,922,805
Total mortgage loans	2,950,057	2,923,720
Accrued interest receivable, net (includes $8,918 and $8,910, respectively, related to consolidated trusts)	11,303	11,279
Acquired property, net	15,264	16,173
Other assets (includes $242 and $593, respectively, related to consolidated trusts)	20,959	26,826

Total assets	$ 3,227,042	$ 3,221,972

LIABILITIES AND EQUITY (DEFICIT)

Liabilities:		
Accrued interest payable (includes $9,673 and $9,712, respectively, related to consolidated trusts)	$ 13,828	$ 13,764
Federal funds purchased and securities sold under agreements to repurchase	25	52
Debt:		
Of Fannie Mae (includes $884 and $893, respectively, at fair value)	761,187	780,044
Of consolidated trusts (includes $2,193 and $2,271, respectively, at fair value)	2,447,589	2,416,956
Other liabilities (includes $713 and $893, respectively, related to consolidated trusts)	12,831	13,673
Total liabilities	3,235,460	3,224,489
Commitments and contingencies (Note 14)		
Fannie Mae stockholders equity (deficit):		
Senior preferred stock, 1,000,000 shares issued and outstanding	91,200	88,600
Preferred stock, 700,000,000 shares are authorized 576,868,039 and 576,868,139 shares issued and outstanding, respectively	20,204	20,204
Common stock, no par value, no maximum authorization 1,270,092,862 and 1,270,092,708 shares issued, respectively; 1,119,073,956 and 1,118,504,194 shares outstanding, respectively	667	667
Accumulated deficit	(111,669)	(102,986)
Accumulated other comprehensive loss	(1,501)	(1,682)
Treasury stock, at cost, 151,018,906 and 151,588,514 shares, respectively	(7,400)	(7,402)
Total Fannie Mae stockholders deficit	(8,499)	(2,599)
Noncontrolling interest	81	82
Total deficit	(8,418)	(2,517)
Total liabilities and equity (deficit)	$ 3,227,042	$ 3,221,972

See Notes to Condensed Consolidated Financial Statements

Table of Contents

FANNIE MAE
(In conservatorship)

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended March 31, 2011	2010
Interest income:		
Trading securities	$ 284	$ 315
Available-for-sale securities	1,213	1,473
Mortgage loans (includes $31,865 and $34,321, respectively, related to consolidated trusts)	35,590	37,619
Other	28	39
Total interest income	37,115	39,446
Interest expense:		
Short-term debt (includes $3 and $2, respectively, related to consolidated trusts)	107	118
Long-term debt (includes $27,852 and $31,458, respectively, related to consolidated trusts)	32,048	36,539
Total interest expense	32,155	36,657
Net interest income	4,960	2,789
Provision for loan losses	(10,587)	(11,939)
Net interest loss after provision for loan losses	(5,627)	(9,150)
Investment gains, net	75	166
Other-than-temporary impairments	(57)	(186)
Noncredit portion of other-than-temporary impairments recognized in other comprehensive income	13	(50)
Net other-than-temporary impairments	(44)	(236)
Fair value gains (losses), net	289	(1,705)
Debt extinguishment gains (losses), net	13	(124)
Fee and other income	237	233
Non-interest income (loss)	570	(1,666)
Administrative expenses:		
Salaries and employee benefits	320	324
Professional services	189	194

Occupancy expenses	42	41
Other administrative expenses	54	46
Total administrative expenses	605	605
Benefit for guaranty losses	(33)	(36)
Foreclosed property expense (income)	488	(19)
Other expenses	352	230
Total expenses	1,412	780
Loss before federal income taxes	(6,469)	(11,596)
Provision (benefit) for federal income taxes	2	(67)
Net loss	(6,471)	(11,529)
Other comprehensive income:		
Changes in unrealized losses on available-for-sale securities, net of reclassification adjustments and taxes	179	1,370
Other	2	2
Total other comprehensive income	181	1,372
Total comprehensive loss	(6,290)	(10,157)
Less: Comprehensive income attributable to the noncontrolling interest		(1)
Total comprehensive loss attributable to Fannie Mae	$ (6,290)	$ (10,158)
Net loss	$ (6,471)	$ (11,529)
Less: Net income attributable to the noncontrolling interest		(1)
Net loss attributable to Fannie Mae	(6,471)	(11,530)
Preferred stock dividends	(2,216)	(1,527)
Net loss attributable to common stockholders	$ (8,687)	$ (13,057)
Loss per share Basic and Diluted	$ (1.52)	$ (2.29)
Weighted-average common shares outstanding Basic and Diluted	5,698	5,692

See Notes to Condensed Consolidated Financial Statements

Table of Contents

FANNIE MAE
(In conservatorship)

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in millions)

	For the Three Months Ended March 31, 2011	2010
Net cash provided by (used in) operating activities	$ 2,566	$ (30,885)
Cash flows provided by investing activities:		
Purchases of trading securities held for investment	(185)	(6,695)
Proceeds from maturities of trading securities held for investment	522	805
Proceeds from sales of trading securities held for investment	409	15,068
Purchases of available-for-sale securities	(44)	(107)
Proceeds from maturities of available-for-sale securities	3,851	4,120
Proceeds from sales of available-for-sale securities	498	4,428
Purchases of loans held for investment	(15,745)	(12,725)
Proceeds from repayments of loans held for investment of Fannie Mae	5,381	3,920
Proceeds from repayments of loans held for investment of consolidated trusts	121,533	108,903
Net change in restricted cash	26,948	3,174
Advances to lenders	(15,646)	(10,338)
Proceeds from disposition of acquired property and preforeclosure sales	10,979	7,678
Net change in federal funds sold and securities purchased under agreements to resell or similar agreements	(14,499)	(9,135)
Other, net	(163)	(382)
Net cash provided by investing activities	123,839	108,714
Cash flows used in financing activities:		
Proceeds from issuance of debt of Fannie Mae	163,776	293,013
Payments to redeem debt of Fannie Mae	(183,073)	(277,495)
Proceeds from issuance of debt of consolidated trusts	72,567	88,750
Payments to redeem debt of consolidated trusts	(177,551)	(172,385)
Payments of cash dividends on senior preferred stock to Treasury	(2,216)	(1,527)
Proceeds from senior preferred stock purchase agreement with Treasury	2,600	15,300
Net change in federal funds purchased and securities sold under agreements to repurchase	26	180
Net cash used in financing activities	(123,871)	(54,164)
Net increase in cash and cash equivalents	2,534	23,665
Cash and cash equivalents at beginning of period	17,297	6,812
Cash and cash equivalents at end of period	$ 19,831	$ 30,477
Cash paid during the period for interest	$ 32,689	$ 36,788

See Notes to Condensed Consolidated Financial Statements

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Summary of Significant Accounting Policies

Organization

We are a stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (the Charter Act or our charter). We are a government-sponsored enterprise (GSE) and subject to government oversight and regulation. Our regulators include the Federal Housing Finance Agency (FHFA), the U.S. Department of Housing and Urban Development (HUD), the U.S. Securities and Exchange Commission (SEC), and the U.S. Department of the Treasury (Treasury). The U.S. government does not guarantee our securities or other obligations.

Conservatorship

On September 7, 2008, the Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae, which included: (1) placing us in conservatorship; (2) the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and (3) Treasury s agreement to establish a temporary secured lending credit facility that was available to us and the other GSEs regulated by FHFA under identical terms until December 31, 2009.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008, (together, the GSE Act), the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. The conservator retains the authority to withdraw its delegations at any time.

We were directed by FHFA to voluntarily delist our common stock and each listed series of our preferred stock from the New York Stock Exchange and the Chicago Stock Exchange. The last trading day for the listed securities on the New York Stock Exchange and the Chicago Stock Exchange was July 7, 2010, and since July 8, 2010, the securities have been traded on the over-the-counter market.

As of May 6, 2011, the conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as conservator. The GSE Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator. FHFA s proposed rule on conservatorship and receivership operations, published on July 9, 2010, defines reasonable period as a period of 18 months following the appointment of a conservator or receiver. This proposed rule has not been finalized.

The conservator has the power to transfer or sell any asset or liability of Fannie Mae (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts) without any approval, assignment of rights or consent of any party. The GSE Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie

Mae MBS and cannot be used to satisfy the general creditors of the company. As of May 6, 2011, FHFA has not exercised this power.

Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

The conservatorship has no specified termination date and 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

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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. Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons, including conditions that FHFA has already asserted existed at the time the former Director of FHFA placed us into conservatorship. Placement into receivership would have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. We are not aware of any plans of FHFA to significantly change our business model or capital structure in the near-term.

Impact of U.S. Government Support

We are dependent upon the continued support of Treasury to eliminate our net worth deficit, which avoids our being placed into receivership. Based on consideration of all the relevant conditions and events affecting our operations, including our dependence on the U.S. Government, we continue to operate as a going concern and in accordance with our delegation of authority from FHFA.

Pursuant to the amended senior preferred stock purchase agreement, Treasury has committed to provide us with funding as needed to help us maintain a positive net worth thereby avoiding the mandatory receivership trigger described above. We have received a total of $90.2 billion as of March 31, 2011 under Treasury s funding commitment and the Acting Director of FHFA has submitted a request for an additional $8.5 billion from Treasury to eliminate our net worth deficit as of March 31, 2011. The aggregate liquidation preference of the senior preferred stock was $91.2 billion as of March 31, 2011 and will increase to $99.7 billion as a result of FHFA s request on our behalf for funds to eliminate our net worth deficit as of March 31, 2011.

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.

As consideration for Treasury s funding commitment, we issued one million shares of senior preferred stock and a warrant to purchase shares of our common stock to Treasury. A quarterly commitment fee was scheduled to be set by Treasury beginning on March 31, 2011. This commitment fee was waived by Treasury for the first quarter of 2011. On March 31, 2011, FHFA was notified by Treasury that it was waiving the commitment fee for the second quarter of 2011 due to the continued fragility of the U.S. mortgage market and because Treasury believed that imposing the commitment fee would not generate increased compensation for taxpayers. Treasury further noted that it would reevaluate the situation during the next calendar quarter to determine whether to set the quarterly commitment fee for the next quarter under the senior preferred stock purchase agreement.

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. Our ability to issue long-term debt has been strong primarily due to actions taken by the federal government to support us and the financial markets.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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. In addition, 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.

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 reduce Fannie Mae s and Freddie Mac s role in the market and ultimately wind down both institutions. 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. We expect that Congress will continue to hold hearings and consider legislation in 2011 on the future status of Fannie Mae and Freddie Mac, including proposals that would result in a substantial change to our business structure, or our operations, or that involve Fannie Mae s liquidation or dissolution. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the SEC s instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Results for the three months ended March 31, 2011 may not necessarily be indicative of the results for the year ending December 31, 2011. The unaudited interim condensed consolidated financial statements as of March 31, 2011 should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K), filed with the SEC on February 24, 2011.

Related Parties

As a result of our issuance to Treasury of the warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, we and the Treasury are deemed related parties. As of March 31, 2011, Treasury held an investment in our senior preferred stock with a liquidation preference of $91.2 billion. Our administrative expenses were reduced by $35 million in the first quarter of 2011 due to accrual and receipt of reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for the Home Affordable Modification Program (HAMP) and other initiatives under the Making Home Affordable Program.

During the three months ended March 31, 2011, we received a refund of $1.1 billion from the IRS, a bureau of Treasury, related to the carryback of our 2009 operating loss to the 2008 and 2007 tax years.

Under a temporary credit and liquidity facilities (TCLF) program, we had $3.5 billion and $3.7 billion outstanding, which includes principal and interest, of three-year standby credit and liquidity support as of March 31, 2011 and December 31, 2010, respectively. Treasury has purchased participating interests in these temporary credit and liquidity facilities. Under a new issue bond (NIB) program, we had $7.6 billion outstanding of pass-through securities backed by single-family and multifamily housing bonds issued by housing finance agencies (HFAs) as of March 31, 2011 and December 31, 2010. Treasury bears the initial

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

loss of principal under the TCLF program and the NIB program up to 35% of the total principal on a combined program-wide basis.

FHFA s control of both us and Freddie Mac has caused us and Freddie Mac to be related parties. No transactions outside of normal business activities have occurred between us and Freddie Mac. As of March 31, 2011 and December 31, 2010, we held Freddie Mac mortgage-related securities with a fair value of $16.6 billion and $18.3 billion, respectively, and accrued interest receivable of $83 million and $93 million, respectively. We recognized interest income on Freddie Mac mortgage-related securities held by us of $188 million and $335 million for the three months ended March 31, 2011 and 2010, respectively. In addition, Freddie Mac may be an investor in variable interest entities that we have consolidated, and we may be an investor in variable interest entities that Freddie Mac has consolidated.

Use of Estimates

Preparing condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the dates of our condensed consolidated financial statements, as well as our reported amounts of revenues and expenses during the reporting periods. Management has made significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments and other assets and liabilities, the allowance for loan losses and reserve for guaranty losses, and other-than-temporary impairment of investment securities. Actual results could be different from these estimates.

Principles of Consolidation

Our condensed consolidated financial statements include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. The typical condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. A controlling financial interest may also exist in entities through arrangements that do not involve voting interests, such as a variable interest entity (VIE).

Cash and Cash Equivalents and Statements of Cash Flows

During 2010, we identified certain servicer and consolidation related transactions that were not appropriately reflected in our condensed consolidated statements of cash flows for the three months ended March 31, 2010. As a result, our condensed consolidated statement of cash flows for the three months ended March 31, 2010 includes a $2.0 billion adjustment to decrease net cash used in operating activities, a $3.5 billion adjustment to decrease net cash provided by investing activities, primarily related to Proceeds from sales of available-for-sale securities, Purchases of loans held for investment, Proceeds from repayments of loans held for investment of consolidated trusts and Other, net and a $1.5 billion adjustment to decrease net cash used in financing activities, primarily related to Proceeds from issuance of long-term debt of consolidated trusts. We have evaluated the effects of these misstatements, both quantitatively and qualitatively, on our previously reported condensed consolidated statements of cash flows for the three months ended March 31, 2010 and concluded that this prior period was not materially misstated.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Collateral

Cash Collateral

The following table displays cash collateral accepted and pledged as of March 31, 2011 and December 31, 2010.

	As of			
	March 31, 2011		December 31, 2010	
	(Dollars in millions)			
Cash collateral accepted[1]	$	3,056	$	3,101
Cash collateral pledged	$	6,049	$	5,884
Cash collateral pledged related to derivatives activities		2,849		3,453
Total cash collateral pledged	$	8,898	$	9,337

(1) Includes restricted cash of $2.4 billion and $2.5 billion as of March 31, 2011 and December 31, 2010, respectively.

Non-Cash Collateral

The following table displays non-cash collateral pledged and accepted as of March 31, 2011 and December 31, 2010.

	As of			
	March 31, 2011		December 31, 2010	
	(Dollars in millions)			
Non-cash collateral pledged where the secured party has the right to sell or repledge:				
Held-for-investment loans of consolidated trusts	$	2,241	$	2,522
Non-cash collateral accepted with the right to sell or repledge[1]	$	20,000	$	7,500
Non-cash collateral accepted without the right to sell or repledge		11,249		6,744

(1) None of this collateral was sold or repledged as of March 31, 2011 and December 31, 2010.

Additionally, we provide early funding to lenders on a collateralized basis and account for the advances as secured lending arrangements in Other assets in our condensed consolidated balance sheets. These amounts totaled $3.1 billion at March 31, 2011 and $7.2 billion at December 31, 2010.

Our liability to third-party holders of Fannie Mae MBS that arises as the result of a consolidation of a securitization trust is collateralized by the underlying loans and/or mortgage-related securities.

When securities sold under agreements to repurchase meet all of the conditions of a secured financing, we report the collateral of the transferred securities at fair value, excluding accrued interest. The fair value of these securities is classified in Investments in securities in our condensed consolidated balance sheets. We had no repurchase agreements outstanding as of March 31, 2011 and $49 million in repurchase agreements outstanding as of December 31, 2010.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Fair Value Gains (Losses), Net

The following table displays the composition of Fair value gains (losses), net for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Derivatives fair value gains (losses), net	$ 139	$ (2,762)
Trading securities gains, net	225	1,058
Other, net	(75)	(1)
Fair value gains (losses), net	$ 289	$ (1,705)

Reclassifications

To conform to our current period presentation, we have reclassified and condensed certain amounts reported in our condensed consolidated financial statements. The following table displays the line items that were reclassified and condensed in our condensed consolidated balance sheet as of December 31, 2010.

	As of December 31, 2010	
	Before Reclassification	After Reclassification
	(Dollars in millions)	
Reclassified lines to:		
Assets:		
Servicer and MBS trust receivable	$ 951	$
Other assets	25,875	26,826
Liabilities:		
Short-term debt:		
Of Fannie Mae	151,884	
Of consolidated trusts	5,359	
Long-term debt:		
Of Fannie Mae	628,160	
Of consolidated trusts	2,411,597	
Debt:		

Of Fannie Mae		780,044
Of consolidated trusts		2,416,956
Reserve for guaranty losses	323	
Service and MBS trust payable	2,950	
Other liabilities	10,400	13,673

92

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table represents the line items that we reclassified and condensed in our condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2010.

	For the Three Months Ended March 31, 2010	
	Before Reclassification	After Reclassification
	(Dollars in millions)	
Reclassified lines to:		
Interest expense:		
Short-term debt:		
Of Fannie Mae	$ 116	$
Of consolidated trusts	2	
Long-term debt:		
Of Fannie Mae	5,081	
Of consolidated trusts	31,458	
Short-term debt (includes $2 related to consolidated trusts)		118
Long-term debt (includes $31,458 related to consolidated trusts)		36,539
Guaranty fee income	54	
Fee and other income	179	233
Losses from partnership investments	58	
Other expenses	172	230

In our condensed consolidated statements of cash flows for the three months ended March 31, 2010, we reclassified the following amounts within Cash flows used in financing activities to conform to our current period presentation: $192.4 billion from Proceeds from issuance of short-term debt of Fannie Mae and $100.6 billion from Proceeds from issuance of long-term debt of Fannie Mae to Proceeds from issuance of debt of Fannie Mae, $185.2 billion from Payments to redeem short-term debt of Fannie Mae and $92.4 billion from Payments to redeem long-term debt of Fannie Mae to Payments to redeem debt of Fannie Mae, $3.3 billion from Proceeds from issuance of short-term debt of consolidated trusts and $83.7 billion from Proceeds from issuance of long-term debt of consolidated trusts to Proceeds from issuance of debt of consolidated trusts and $9.5 billion from Payments to redeem short-term debt of consolidated trusts and $162.6 billion from Payments to redeem long-term debt of consolidated trusts to Payments to redeem debt of consolidated trusts.

New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued a new standard that clarifies when a loan restructuring is considered a troubled debt restructuring (TDR). Specifically, the new standard amends existing guidance to clarify how to determine when a borrower is experiencing financial difficulty, when a concession is granted by a creditor, and when a delay in payment is considered insignificant.

The new standard is effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. We will adopt this new guidance effective for the period ending September 30, 2011 and are currently assessing the impact that the new standard may have on our condensed consolidated financial statements.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

2. Consolidations and Transfers of Financial Assets

We have interests in various entities that are considered to be VIEs. The primary types of entities are securitization trusts guaranteed by us via lender swap and portfolio securitization transactions, mortgage and asset-backed trusts that were not created by us, as well as housing partnerships that are established to finance the acquisition, construction, development or rehabilitation of affordable multifamily and single-family housing. These interests include investments in securities issued by VIEs, such as Fannie Mae MBS created pursuant to our securitization transactions and our guaranty to the entity. We consolidate the substantial majority of our single-class securitization trusts.

As of March 31, 2011, we consolidated certain Fannie Mae multi-class resecuritization trusts that were not consolidated as of December 31, 2010 because we now hold in our portfolio a substantial portion of the certificates. As a result of consolidating these multi-class resecuritization trusts, which had combined total assets of $1.3 billion in unpaid principal balance as of March 31, 2011, we derecognized our investment in these trusts and recognized the assets and liabilities of the consolidated trusts at their fair value.

We deconsolidate Fannie Mae multi-class resecuritization trusts when we no longer hold in our portfolio a substantial portion of the certificates, derecognizing the assets and liabilities of the trusts and recognizing at fair value our retained interests as securities in our condensed consolidated balance sheet. As of March 31, 2011, there was no change in the consolidation status of Fannie Mae multi-class resecuritization trusts that were consolidated as of December 31, 2010.

Unconsolidated VIEs

We also have interests in VIEs that we do not consolidate because we are not deemed to be the primary beneficiary. These unconsolidated VIEs include securitization trusts, as well as other investment entities. The following table displays the carrying amount and classification of our assets and liabilities that relate to our involvement with unconsolidated VIEs as of March 31, 2011 and December 31, 2010, as well as our maximum exposure to loss and the total assets of those unconsolidated VIEs.

	As of March 31, 2011		
	Mortgage-Backed Trusts	**Asset-Backed Trusts**	**Limited Partnership Investments**
	(Dollars in millions)		
Assets and liabilities recorded in our condensed consolidated balance sheets:			
Assets:			
Available-for-sale securities[1]	$ 80,570	$	$
Trading securities[1]	23,472	4,100	
Other assets	257		95
Other liabilities	719		152

Net carrying amount	$ 103,580	$ 4,100	$ (57)
Maximum exposure to loss[(1)]	$ 107,416	$ 4,100	$ 336
Total assets of unconsolidated VIEs[(1)]	$ 666,298	$ 343,868	$ 13,001

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of December 31, 2010[2]		
	Mortgage-Backed Trusts	Asset-Backed Trusts	Limited Partnership Investments
	(Dollars in millions)		
Assets and liabilities recorded in our condensed consolidated balance sheets:			
Assets:			
Available-for-sale securities[1]	$ 84,770	$	$
Trading securities[1]	24,021	5,321	
Other assets	257		94
Other liabilities	773		170
Net carrying amount	$ 108,275	$ 5,321	$ (76)
Maximum exposure to loss[1]	$ 111,004	$ 5,321	$ 319
Total assets of unconsolidated VIEs[1]	$ 740,387	$ 363,721	$ 13,102

(1) Contains securities exposed through consolidation which may also represent an interest in other unconsolidated VIEs.

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

Our maximum exposure to loss generally represents the greater of our recorded investment in the entity or the unpaid principal balance of the assets covered by our guaranty. However, our securities issued by Fannie Mae multi-class resecuritization trusts that are not consolidated do not give rise to any additional exposure to loss as we already consolidate the underlying collateral.

Transfers of Financial Assets

We issue Fannie Mae MBS through portfolio securitization transactions by transferring pools of mortgage loans or mortgage-related securities to one or more trusts or special purpose entities. We are considered to be the transferor when we transfer assets from our own portfolio in a portfolio securitization transaction. For the three months ended March 31, 2011 and 2010, the unpaid principal balance of portfolio securitizations was $29.3 billion and $17.8 billion, respectively.

The majority of our portfolio securitization transactions do not qualify for sale treatment. As a result, our continuing involvement in the form of guaranty assets and guaranty liabilities with assets that were transferred into

unconsolidated trusts is not material. We report the assets and liabilities of consolidated trusts created via portfolio securitization transactions that do not qualify as sales in our condensed consolidated balance sheets.

The following table displays some key characteristics of the REMIC and Stripped Mortgage-Backed Securities retained in unconsolidated portfolio securitization trusts.

	As of	
	March 31, 2011	**December 31, 2010**
	(Dollars in millions)	
Unpaid principal balance	$ 14,448	$ 15,771
Fair value	15,238	16,745
Weighted-average coupon	6.18%	6.28%
Weighted-average loan age	4.7 years	4.4 years
Weighted-average maturity	21.0 years	22.0 years

95

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

For the three months ended March 31, 2011 and 2010, the principal and interest received on retained interests was $750 million and $836 million, respectively.

Managed Loans

We define managed loans as on-balance sheet mortgage loans as well as mortgage loans that we have securitized in unconsolidated portfolio securitization trusts. The following table displays the unpaid principal balances of managed loans, including those managed loans that are delinquent as of March 31, 2011 and December 31, 2010.

	Unpaid Principal Balance	Principal Amount of Delinquent Loans[(1)]
	(Dollars in millions)	
As of March 31, 2011		
Loans held for investment		
Of Fannie Mae	$ 418,770	$ 136,489
Of consolidated trusts	2,603,491	27,972
Loans held for sale	1,470	116
Securitized loans	2,108	24
Total loans managed	$ 3,025,839	$ 164,601
As of December 31, 2010		
Loans held for investment		
Of Fannie Mae	$ 423,686	$ 141,342
Of consolidated trusts	2,565,347	34,080
Loans held for sale	964	127
Securitized loans	2,147	78
Total loans managed	$ 2,992,144	$ 175,627

(1) Represents the unpaid principal balance of loans held for investment and loans held for sale for which we are no longer accruing interest and loans 90 days or more delinquent which are continuing to accrue interest.

Qualifying Sales of Portfolio Securitizations

We recognize assets obtained and liabilities incurred in a portfolio securitization at fair value. Proceeds from the initial sale of securities from portfolio securitizations were $108 million and $249 million for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2010, proceeds from the initial sale of

securities were reduced by $1.3 billion from the amount previously disclosed, primarily related to deconsolidated REMICs that should have been presented as proceeds from issuance of long-term debt of consolidated trusts.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. Mortgage Loans

The following table displays our mortgage loans as of March 31, 2011 and December 31, 2010.

	As of					
	March 31, 2011			December 31, 2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Single-family	$ 328,656	$ 2,523,197	$ 2,851,853	$ 328,824	$ 2,490,623	$ 2,819,447
Multifamily	90,517	81,361	171,878	95,157	75,393	170,550
Total unpaid principal balance of mortgage loans	419,173	2,604,558	3,023,731	423,981	2,566,016	2,989,997
Cost basis and fair value adjustments, net	(16,462)	10,345	(6,117)	(16,498)	11,777	(4,721)
Allowance for loan losses for loans held for investment	(53,708)	(13,849)	(67,557)	(48,530)	(13,026)	(61,556)
Total mortgage loans	$ 349,003	$ 2,601,054	$ 2,950,057	$ 358,953	$ 2,564,767	$ 2,923,720

During the three months ended March 31, 2011, we redesignated loans with a carrying value of $561 million from held for investment (HFI) to held for sale (HFS).

The following tables display an aging analysis of the total recorded investment in our HFI mortgage loans, excluding loans for which we have elected the fair value option, by portfolio segment and class as of March 31, 2011 and December 31, 2010. For purposes of this table, each loan in our portfolio is included in only one segment and class category.

As of March 31, 2011[1]	
Recorded Investment in Loans Over	Recorded

	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent[2]	Total Delinquent	Current	Total	90 Days Delinquent and Accruing Interest	Investment in Nonaccrual Loans
	(Dollars in millions)							
Single-family:								
Primary[3]	$ 39,980	$ 14,949	$ 89,650	$ 144,579	$ 2,356,321	$ 2,500,900	$ 128	$ 104,375
Government[4]	96	48	320	464	51,486	51,950	320	
Alt-A	7,670	3,598	34,761	46,029	153,035	199,064	16	38,335
Other[5]	3,514	1,624	14,241	19,379	81,837	101,216	105	15,670
Total single-family	51,260	20,219	138,972	210,451	2,642,679	2,853,130	569	158,380
Multifamily[6]	322	NA	1,094	1,416	172,385	173,801		1,047
Total	$ 51,582	$ 20,219	$ 140,066	$ 211,867	$ 2,815,064	$ 3,026,931	$ 569	$ 159,427

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of December 31, 2010[1]							
	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent[2]	Total Delinquent	Current	Total	Recorded Investment in Loans Over 90 Days Delinquent and Accruing Interest	Recorded Investment in Nonaccrual Loans
	(Dollars in millions)							
Single-family:								
Primary[3]	$ 47,048	$ 18,055	$ 93,302	$ 158,405	$ 2,299,080	$ 2,457,485	$ 139	$ 110,758
Government[4]	125	58	371	554	51,930	52,484	354	
Alt-A	8,547	4,097	37,557	50,201	156,951	207,152	21	41,566
Other[5]	3,785	1,831	15,290	20,906	84,473	105,379	80	17,022
Total single-family	59,505	24,041	146,520	230,066	2,592,434	2,822,500	594	169,346
Multifamily[6]	382	NA	1,132	1,514	171,000	172,514		1,012
Total	$ 59,887	$ 24,041	$ 147,652	$ 231,580	$ 2,763,434	$ 2,995,014	$ 594	$ 170,358

(1) Recorded investment consists of (a) unpaid principal balance; (b) unamortized premiums, discounts and other cost basis adjustments; and (c) accrued interest receivable.

(2) Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.

(3) Consists of mortgage loans that are not included in other loan classes.

(4) Consists of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies that are not Alt-A. Primarily consists of reverse mortgages which due to their nature are not aged and included in the current column.

(5) Includes loans with higher-risk loan characteristics, such as interest-only loans and negative-amortizing loans that are neither government nor Alt-A.

(6) Multifamily loans 60-89 days delinquent are included in the seriously delinquent column.

The following table displays the total recorded investment in our HFI loans, excluding loans for which we have elected the fair value option, by portfolio segment, class and credit quality indicators as of March 31, 2011 and December 31, 2010. The single-family credit quality indicator is updated quarterly and the multifamily credit quality indicators are as of the origination date of each loan.

	As of					
	March 31, 2011[1][2]			December 31, 2010[1][2]		
	Primary[3]	Alt-A	Other[4]	Primary[3]	Alt-A	Other[4]
	(Dollars in millions)					
Single-family						
Estimated mark-to-market LTV ratio:[5]						
Less than or equal to 80%	$ 1,491,411	$ 70,592	$ 26,614	$ 1,561,202	$ 79,305	$ 29,854
80.01% to 90%	426,344	25,620	11,794	376,414	27,472	13,394
90.01% to 100%	237,697	23,487	11,817	217,193	24,392	12,935
100.01% to 110%	129,197	18,260	10,893	112,376	18,022	11,400
110.01% to 120%	71,237	13,471	9,043	62,283	12,718	8,967
120.01% to 125%	24,542	5,295	3,817	21,729	5,083	3,733
Greater than 125%	120,472	42,339	27,238	106,288	40,160	25,096
Total	$ 2,500,900	$ 199,064	$ 101,216	$ 2,457,485	$ 207,152	$ 105,379

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of	
	March 31, 2011[1]	December 31, 2010[1]
	(Dollars in millions)	
Multifamily		
Original LTV ratio:		
Less than or equal to 70%	$ 98,355	$ 96,844
70.01% to 80%	71,087	71,560
Greater than 80%	4,359	4,110
Total	$ 173,801	$ 172,514
Original debt service coverage ratio:		
Less than or equal to 1.10%	$ 14,287	$ 15,034
1.11% to 1.25%	51,765	50,745
Greater than 1.25%	107,749	106,735
Total	$ 173,801	$ 172,514

(1) Recorded investment consists of the following: (a) unpaid principal balance; (b) unamortized premiums, discounts and other cost basis adjustments; and (c) accrued interest receivable.

(2) Excludes $52.0 billion and $52.5 billion as of March 31, 2011 and December 31, 2010, respectively, of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies that are not Alt-A loans. The segment class is primarily reverse mortgages for which we do not calculate an estimated mark-to-market LTV.

(3) Consists of mortgage loans that are not included in other loan classes.

(4) Includes loans with higher-risk loan characteristics, such as interest-only loans and negative-amortizing loans that are neither government nor Alt-A.

(5) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Individually Impaired Loans

Individually impaired loans include TDRs, acquired credit-impaired loans, and other multifamily loans regardless of whether we are currently accruing interest. The following tables display the total recorded investment, unpaid principal balance, related allowance and average recorded investment as of March 31, 2011 and December 31, 2010 and interest income recognized for the three months ended March 31, 2011 and 2010 for individually impaired loans.

	As of March 31, 2011					For the Three Months Ended March 31, 2011	
	Unpaid Principal Balance	Total Recorded Investment[1]	Related Allowance for Loan Losses	Related Allowance for Accrued Interest Receivable	Average Recorded Investment	Total Interest Income Recognized[2]	Interest Income Recognized on a Cash Basis
	(Dollars in millions)						
Individually impaired loans:							
With related allowance recorded:							
Single-family:							
Primary[3]	$ 104,608	$ 97,149	$ 26,095	$ 737	$ 95,087	$ 904	$ 41
Government[4]	218	217	45	7	232	3	
Alt-A	31,987	28,881	10,352	334	28,567	242	2
Other[5]	14,956	14,089	4,872	125	13,889	106	6
Total single-family	151,769	140,336	41,364	1,203	137,775	1,255	49
Multifamily	2,035	2,033	494	20	2,202	25	1
Total individually impaired loans with related allowance recorded	153,804	142.369	41,858	1,223	139,977	1,280	50
With no related allowance recorded:[6]							

Single-family:							
Primary(3)	11,255	7,041			7,139	108	57
Government(4)	19	11			12	1	
Alt-A	4,062	1,841			1,863	33	19
Other(5)	1,013	515			513	8	4
Total single-family	16,349	9,408			9,527	150	80
Multifamily	710	696			754	15	3
Total individually impaired loans with no related allowance recorded	17,059	10,104			10,281	165	83
Total individually impaired loans(7)	$ 170,863	$ 152,473	$ 41,858	$ 1,223	$ 150,258	$ 1,445	$ 133

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of December 31, 2010					For the Three Months Ended March 31, 2010	
	Unpaid Principal Balance	Total Recorded Investment[1]	Related Allowance for Loan Losses	Related Allowance for Accrued Interest Receivable	Average Recorded Investment	Total Interest Income Recognized[2]	Interest Income Recognized on a Cash Basis
	(Dollars in millions)						
Individually impaired loans:							
With related allowance recorded:							
Single-family:							
Primary[3]	$ 99,838	$ 93,024	$ 23,565	$ 772	$ 81,258	$ 1,198	$ 210
Government[4]	240	248	38	7	141	1	
Alt-A	30,932	28,253	9,592	368	25,361	408	58
Other[5]	14,429	13,689	4,479	137	12,094	173	35
Total single-family	145,439	135,214	37,674	1,284	118,854	1,780	303
Multifamily	2,372	2,371	556	23	1,496	56	1
Total individually impaired loans with related allowance recorded	147,811	137,585	38,230	1,307	120,350	1,836	304
With no related allowance recorded:[6]							
Single-family:							
Primary[3]	10,586	7,237			7,860	209	18
Government[4]	19	13			11	2	
Alt-A	3,600	1,884			2,091	88	9
Other[5]	879	512			589	24	2
Total single-family	15,084	9,646			10,551	323	29
Multifamily	789	811			642	18	

Total individually impaired loans with no related allowance recorded	15,873	10,457			11,193	341	29
Total individually impaired loans[7]	$ 163,684	$ 148,042	$ 38,230	$ 1,307	$ 131,543	$ 2,177	$ 333

(1) Recorded investment consists of the following: (a) unpaid principal balance; (b) unamortized premiums, discounts and other cost basis adjustments; and (c) accrued interest receivable.

(2) Total single-family interest income recognized of $1.4 billion consists of $1.1 billion of contractual interest and $352 million of effective yield adjustments for the three months ended March 31, 2011. Total single-family interest income recognized of $2.1 billion consists of $1.8 billion of contractual interest and $275 million of effective yield adjustments for the three months ended March 31, 2010.

(3) Consists of mortgage loans that are not included in other loan classes.

(4) Consists of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies that are not Alt-A.

(5) Includes loans with higher-risk characteristics, such as interest-only loans and negative-amortizing loans that are neither government nor Alt-A.

(6) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.

(7) Includes single-family loans restructured in a TDR with a recorded investment of $145.4 billion and $140.1 billion as of March 31, 2011 and December 31, 2010, respectively. Includes multifamily loans restructured in a TDR with a recorded investment of $916 million and $939 million as of March 31, 2011 and December 31, 2010, respectively.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Loans Acquired in a Transfer

We acquired delinquent loans from unconsolidated trusts and long-term standby commitments with an unpaid principal balance plus accrued interest of $48 million and $85 million for the three months ended March 31, 2011 and 2010, respectively. The following table displays the outstanding balance, carrying amount and accretable yield of acquired credit-impaired loans as of March 31, 2011 and December 31, 2010, excluding loans that were modified as TDRs subsequent to their acquisition from MBS trusts.

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Outstanding contractual balance	$ 7,231	$ 8,519
Carrying amount:		
Loans on accrual status	$ 1,960	$ 2,029
Loans on nonaccrual status	2,020	2,449
Total carrying amount of loans	$ 3,980	$ 4,478
Accretable yield	$ 2,125	$ 2,412

The following table displays interest income recognized and the impact to the Provision for credit losses related to loans that are still being accounted for as acquired credit-impaired loans, as well as loans that have been subsequently modified as a TDR, for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Accretion of fair value discount[1]	$ 231	$ 266
Interest income on loans returned to accrual status or subsequently modified as TDRs	255	321
Total interest income recognized on acquired credit-impaired loans	$ 486	$ 587
Increase in Provision for loan losses subsequent to the acquisition of credit-impaired loans	$ 238	$ 564

(1) Represents accretion of the fair value discount that was recorded on acquired credit-impaired loans.

4. Allowance for Loan Losses

We maintain an allowance for loan losses for loans held for investment in our mortgage portfolio and loans backing Fannie Mae MBS issued from consolidated trusts. When calculating our loan loss allowance, we consider only our net recorded investment in the loan at the balance sheet date, which includes interest income only while the loan was on accrual status. The allowance for loan losses is calculated based on our estimate of incurred losses as of the balance sheet date. Determining the adequacy of our allowance for loan losses is complex and requires judgment about the effect of matters that are inherently uncertain.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Allowance for Loan Losses

The following table displays changes in both single-family and multifamily allowance for loan losses for the three months ended March 31, 2011 and total allowance for loan losses for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,					
	2011			2010		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Single-family allowance for loan losses:						
Beginning balance	$ 47,377	$ 12,603	$ 59,980			
Provision for loan losses	7,243	3,369	10,612			
Charge-offs[1]	(5,623)	(448)	(6,071)			
Recoveries	530	952	1,482			
Transfers[2]	3,162	(3,162)				
Net reclassifications[3]	(18)	99	81			
Ending balance	$ 52,671	$ 13,413	$ 66,084			
Multifamily allowance for loan losses:						
Beginning balance	$ 1,153	$ 423	$ 1,576			
Provision (benefit) for loan losses	(84)	59	(25)			
Charge-offs[1]	(82)		(82)			
Transfers[2]	45	(45)				
Net reclassifications[3]	5	(1)	4			
Ending balance	$ 1,037	$ 436	$ 1,473			
Total 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
Total provision for loan losses	7,159	3,428	10,587	6,271	5,668	11,939
Charge-offs[1]	(5,705)	(448)	(6,153)	(1,705)	(3,455)	(5,160)
Recoveries	530	952	1,482	97	277	374

Transfers[2]	3,207	(3,207)		13,855	(13,855)	
Net reclassifications[3]	(13)	98	85	(921)	836	(85)
Ending balance[4][5]	$ 53,708	$ 13,849	$ 67,557	$ 25,675	$ 34,894	$ 60,569

(1) Total charge-offs include accrued interest of $386 million and $579 million for the three months ended March 31, 2011 and 2010, respectively. Single-family charge-offs include accrued interest of $377 million for the three months ended March 31, 2011. Multifamily charge-offs include accrued interest of $9 million for the three months ended March 31, 2011.

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

103

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

(4) Total allowance for loan losses includes $412 million and $903 million as of March 31, 2011 and 2010, respectively, for acquired credit-impaired loans.

(5) Total single-family allowance for loan losses was $58.8 billion as of March 31, 2010. Total multifamily allowance for loan losses was $1.8 billion as of March 31, 2010.

As of March 31, 2011, the allowance for accrued interest receivable for loans of Fannie Mae was $2.6 billion and for loans of consolidated trusts was $340 million. As of December 31, 2010, the allowance for accrued interest receivable for loans of Fannie Mae was $3.0 billion and for loans of consolidated trusts was $439 million.

The following table displays the allowance for loan losses and total recorded investment in our HFI loans, excluding loans for which we have elected the fair value option, by impairment or reserve methodology and portfolio segment as of March 31, 2011 and December 31, 2010.

	As of					
	March 31, 2011			December 31, 2010		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Allowance for loan losses by segment:						
Individually impaired loans	$ 40,957	$ 489	$ 41,446	$ 37,296	$ 549	$ 37,845
Collectively reserved loans	24,720	979	25,699	22,306	1,020	23,326
Acquired credit-impaired loans	407	5	412	378	7	385
Total allowance for loan losses	$ 66,084	$ 1,473	$ 67,557	$ 59,980	$ 1,576	$ 61,556
Recorded investment in loans by segment:[1]						
Individually impaired loans	$ 145,376	$ 2,721	$ 148,097	$ 140,062	$ 3,074	$ 143,136

Collectively reserved loans	2,703,386	171,003	2,874,389	2,677,640	169,332	2,846,972
Acquired credit-impaired loans	4,368	77	4,445	4,798	108	4,906
Total recorded investment in loans	$ 2,853,130	$ 173,801	$ 3,026,931	$ 2,822,500	$ 172,514	$ 2,995,014

(1) Recorded investment consists of the following: (a) unpaid principal balance; (b) unamortized premiums, discounts and other cost basis adjustments; and (c) accrued interest receivable.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

5. Investments in Securities

Trading Securities

Trading securities are recorded at fair value with subsequent changes in fair value recorded as Fair value gains (losses), net in our condensed consolidated statements of operations and comprehensive loss. The following table displays our investments in trading securities and the cumulative amount of net losses recognized from holding these securities as of March 31, 2011 and December 31, 2010.

	As of	
	March 31, 2011	December 31, 2010
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$ 7,131	$ 7,398
Freddie Mac	1,201	1,326
Ginnie Mae	311	590
Alt-A private-label securities	1,658	1,683
Subprime private-label securities	1,547	1,581
CMBS	10,943	10,764
Mortgage revenue bonds	606	609
Other mortgage-related securities	155	152
Total	23,552	24,103
Non-mortgage-related securities:		
U.S. Treasury securities	29,383	27,432
Asset-backed securities	4,100	5,321
Total	33,483	32,753
Total trading securities	$ 57,035	$ 56,856
Losses in trading securities held in our portfolio, net	$ 1,912	$ 2,149

The following table displays information about our net trading gains and losses for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Net trading gains (losses):		
Mortgage-related securities	$ 229	$ 1,006
Non-mortgage-related securities	(4)	52
Total	$ 225	$ 1,058
Net trading gains (losses) recorded in the period related to securities still held at period end:		
Mortgage-related securities	$ 222	$ 900
Non-mortgage-related securities	(5)	48
Total	$ 217	$ 948

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Available-for-Sale Securities

We measure AFS securities at fair value with unrealized gains and losses recorded as a component of Other comprehensive income, net of tax, and we record realized gains and losses from the sale of AFS securities in Investment gains, net in our condensed consolidated statements of operations and comprehensive loss.

The following table displays the gross realized gains, losses and proceeds on sales of AFS securities for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Gross realized gains	$ 60	$ 265
Gross realized losses	6	120
Total proceeds[1]	390	4,179

(1) Excludes proceeds from the initial sale of securities from new portfolio securitizations included in Note 2, Consolidations and Transfers of Financial Assets. For the three months ended March 31, 2010, proceeds were reduced by $419 million from what was previously disclosed, primarily related to deconsolidated REMICs that should have been presented as proceeds from issuance of long-term debt of consolidated trusts.

The following tables display the amortized cost, gross unrealized gains and losses and fair value by major security type for AFS securities we held as of March 31, 2011 and December 31, 2010.

	As of March 31, 2011				
	Total Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses - OTTI[2]	Gross Unrealized Losses - Other[3]	Total Fair Value
	(Dollars in millions)				
Fannie Mae	$ 19,426	$ 1,267	$ (7)	$ (43)	$ 20,643
Freddie Mac	14,435	921			15,356
Ginnie Mae	873	131			1,004
Alt-A private-label securities	15,337	187	(1,634)	(198)	13,692
Subprime private-label securities	11,109	42	(1,102)	(389)	9,660
CMBS[4]	15,097	66		(239)	14,924

Mortgage revenue bonds	11,273	49	(78)	(702)	10,542
Other mortgage-related securities	3,997	122	(31)	(296)	3,792
Total	$ 91,547	$ 2,785	$ (2,852)	$ (1,867)	$ 89,613

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of December 31, 2010				
	Total Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses - OTTI[(2)]	Gross Unrealized Losses - Other[(3)]	Total Fair Value
	(Dollars in millions)				
Fannie Mae	$ 21,428	$ 1,453	$ (9)	$ (44)	$ 22,828
Freddie Mac	15,986	1,010			16,996
Ginnie Mae	909	130			1,039
Alt-A private-label securities	15,789	177	(1,791)	(285)	13,890
Subprime private-label securities	11,323	54	(997)	(448)	9,932
CMBS[(4)]	15,273	25		(454)	14,844
Mortgage revenue bonds	11,792	47	(64)	(734)	11,041
Other mortgage-related securities	4,098	106	(44)	(338)	3,822
Total	$ 96,598	$ 3,002	$ (2,905)	$ (2,303)	$ 94,392

(1) Amortized cost includes unamortized premiums, discounts and other cost basis adjustments as well as the credit component of other-than-temporary impairments recognized in our condensed consolidated statements of operations and comprehensive loss.

(2) Represents the noncredit component of other-than-temporary impairment losses recorded in Accumulated other comprehensive loss as well as cumulative changes in fair value for securities for which we previously recognized the credit component of an other-than-temporary impairment.

(3) Represents the gross unrealized losses on securities for which we have not recognized an other-than-temporary impairment.

(4) Amortized cost includes $807 million and $848 million as of March 31, 2011 and December 31, 2010, respectively, of increase to the carrying amount from previous fair value hedge accounting.

The following tables display additional information regarding gross unrealized losses and fair value by major security type for AFS securities in an unrealized loss position that we held as of March 31, 2011 and December 31, 2010.

	As of March 31, 2011	
	Less Than 12 Consecutive Months	12 Consecutive Months or Longer
	Gross	Gross

	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
	(Dollars in millions)			
Fannie Mae	$ (34)	$ 1,160	$ (16)	$ 199
Alt-A private-label securities	(97)	1,946	(1,735)	8,256
Subprime private-label securities	(46)	704	(1,445)	8,237
CMBS	(31)	4,124	(208)	6,286
Mortgage revenue bonds	(195)	4,174	(585)	3,019
Other mortgage-related securities	(8)	345	(319)	1,871
Total	$ (411)	$ 12,453	$ (4,308)	$ 27,868

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of December 31, 2010			
	Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Fannie Mae	$ (35)	$ 1,461	$ (18)	$ 211
Alt-A private-label securities	(104)	1,915	(1,972)	9,388
Subprime private-label securities	(47)	627	(1,398)	8,493
CMBS	(15)	1,774	(439)	10,396
Mortgage revenue bonds	(206)	5,009	(592)	3,129
Other mortgage-related securities	(2)	262	(380)	2,014
Total	$ (409)	$ 11,048	$ (4,799)	$ 33,631

Other-Than-Temporary Impairments

We recognize the credit component of other-than-temporary impairments of our debt securities in our condensed consolidated statements of operations and comprehensive loss and the noncredit component in Other comprehensive income for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery.

The fair value of our securities varies from period to period due to changes in interest rates, in the performance of the underlying collateral and in the credit performance of the underlying issuer, among other factors. $4.3 billion of the $4.7 billion of gross unrealized losses on AFS securities as of March 31, 2011 have existed for a period of 12 consecutive months or longer. Gross unrealized losses on AFS securities as of March 31, 2011 include unrealized losses on securities with other-than-temporary impairment in which a portion of the impairment remains in Accumulated other comprehensive loss. The securities with unrealized losses for 12 consecutive months or longer, on average, had a fair value as of March 31, 2011 that was 87% of their amortized cost basis. Based on our review for impairments of AFS securities, which includes an evaluation of the collectibility of cash flows and any intent or requirement to sell the securities, we have concluded that we do not have an intent to sell and we believe it is not more likely than not that we will be required to sell the securities. Additionally, our projections of cash flows indicate that we will recover a portion or the majority of these unrealized losses over the lives of the securities.

The following table displays our net other-than-temporary impairments by major security type recognized in our condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Alt-A private-label securities	$ 37	$ 37
Subprime private-label securities		184
Other	7	15
Net other-than-temporary impairments	$ 44	$ 236

108

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

For the three months ended March 31, 2011, we recorded net other-than-temporary impairment of $44 million. The net other-than-temporary impairment charges recorded in the three month period ended March 31, 2011 were primarily driven by an increase in collateral delinquencies on certain Alt-A private-label securities, which resulted in a decrease in the present value of our cash flow projections on these Alt-A private-label securities.

The following table displays activity related to the unrealized credit component on debt securities held by us recognized in earnings for the three months ended March 31, 2011 and 2010. A related unrealized non-credit component has been recognized in Accumulated other comprehensive loss.

	For the Three Months Ended March 31,	
	2011	**2010**
	(Dollars in millions)	
Balance January 1,	$ 8,215	$ 8,191
Additions for the credit component on debt securities for which OTTI was not previously recognized	8	6
Additions for credit losses on debt securities for which OTTI was previously recognized	36	230
Reductions for securities no longer in portfolio at period end		(51)
Reductions for amortization resulting from increases in cash flows expected to be collected over the remaining life of the securities	(219)	(167)
Balance March 31,	$ 8,040	$ 8,209

As of March 31, 2011, those debt securities with other-than-temporary impairment for which we recognized in our condensed consolidated statements of operations and comprehensive loss only the amount of loss related to credit consisted predominantly of Alt-A and subprime securities. We evaluate Alt-A (including option adjustable rate mortgage (ARM)) and subprime private-label securities for other-than-temporary impairment by discounting the projected cash flows from econometric models to estimate the portion of loss in value attributable to credit. Separate components of a third-party model project regional home prices, unemployment and interest rates. The model combines these factors with available current information regarding attributes of loans in pools backing the private-label mortgage-related securities to project prepayment speeds, conditional default rates, loss severities and delinquency rates. It incorporates detailed information on security-level subordination levels and cash flow priority of payments to project security level cash flows. We model securities assuming the benefit of those external financial guarantees that we determined are creditworthy. We have recorded other-than-temporary impairments for the three months ended March 31, 2011 based on this analysis, with amounts related to credit loss recognized in our condensed consolidated statements of operations and comprehensive loss. For securities we determined were not other-than-temporarily impaired, we concluded that either the bond had no projected credit loss or if we projected a loss, that the present value of expected cash flows was greater than the security s cost basis.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table displays the modeled attributes, including default rates and severities, which are used to determine whether our senior interests in certain non-agency mortgage-related securities will experience a cash shortfall. Assumption of voluntary prepayment rates is also an input to the present value of expected losses.

	As of March 31, 2011				
				Alt-A	
	Subprime	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
	(Dollars in millions)				
Vintage Year					
2004 & Prior:					
Unpaid principal balance	$ 2,159	$ 511	$ 3,726	$ 532	$ 2,446
Weighted average collateral default[1]	40.9%	36.7%	12.0%	34.7%	17.3%
Weighted average collateral severities[2]	60.7%	45.8%	42.9%	44.7%	35.8%
Weighted average voluntary prepayment rates[3]	4.1%	6.0%	8.6%	8.2%	11.1%
Average credit enhancement[4]	51.3%	18.2%	12.0%	21.8%	10.7%
2005					
Unpaid principal balance	$ 197	$ 1,375	$ 1,261	$ 570	$ 2,516
Weighted average collateral default[1]	76.1%	57.3%	42.7%	58.5%	41.8%
Weighted average collateral severities[2]	73.0%	54.3%	58.6%	59.5%	50.5%
Weighted average voluntary prepayment rates[3]	1.7%	3.9%	6.6%	6.9%	7.8%
Average credit enhancement[4]	64.3%	29.2%	2.0%	19.3%	6.5%
2006					
Unpaid principal balance	$ 12,303	$ 1,335	$ 602	$ 1,733	$ 1,866
Weighted average collateral default[1]	78.7%	72.6%	44.3%	61.5%	37.0%
Weighted average collateral severities[2]	73.3%	60.8%	62.8%	62.6%	48.1%
Weighted average voluntary prepayment rates[3]	1.7%	3.2%	6.1%	6.9%	9.3%
Average credit enhancement[4]	19.7%	21.5%	2.4%	1.6%	1.8%
2007 & After:					
Unpaid principal balance	$ 639	$	$	$	$ 126
Weighted average collateral default[1]	74.4%	N/A	N/A	N/A	44.8%

Weighted average collateral severities[2]	69.9%	N/A	N/A	N/A	54.3%
Weighted average voluntary prepayment rates[3]	1.6%	N/A	N/A	N/A	6.7%
Average credit enhancement[4]	34.4%	N/A	N/A	N/A	25.7%
Total					
Unpaid principal balance	$ 15,298	$ 3,221	$ 5,589	$ 2,835	$ 6,954
Weighted average collateral default[1]	73.1%	60.4%	22.4%	55.8%	31.9%
Weighted average collateral severities[2]	71.4%	55.7%	48.6%	58.6%	44.7%
Weighted average voluntary prepayment rates[3]	2.1%	3.9%	7.9%	7.1%	9.4%
Average credit enhancement[4]	25.3%	24.3%	8.7%	9.0%	7.0%

(1) The expected remaining cumulative default rate of the collateral pool backing the securities, as a percentage of the current collateral unpaid principal balance, weighted by security unpaid principal balance.

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

(2) The expected remaining loss given default of the collateral pool backing the securities, calculated as the ratio of remaining cumulative loss divided by cumulative defaults, weighted by security unpaid principal balance.

(3) The average monthly voluntary prepayment rate, weighted by security unpaid principal balance.

(4) The average percent current credit enhancement provided by subordination of other securities. Excludes excess interest projections and monoline bond insurance.

Maturity Information

The following table displays the amortized cost and fair value of our AFS securities by major security type and remaining maturity, assuming no principal prepayments, as of March 31, 2011. Contractual maturity of mortgage-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to prepay their obligations at any time.

	As of March 31, 2011									
			One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Total Amortized Cost	Total Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in millions)									
Fannie Mae	$ 19,426	$ 20,643	$	$	$ 1	$ 1	$ 3,576	$ 3,774	$ 15,849	$ 16,868
Freddie Mac	14,435	15,356	4	4	32	33	1,492	1,595	12,907	13,724
Ginnie Mae	873	1,004					5	6	868	998
Alt-A private-label securities	15,337	13,692			1	1	279	281	15,057	13,410
Subprime private-label securities	11,109	9,660							11,109	9,660
CMBS	15,097	14,924			1,990	1,989	12,472	12,328	635	607
Mortgage revenue bonds	11,273	10,542	55	55	370	380	771	772	10,077	9,335
Other mortgage-related securities	3,997	3,792						16	3,997	3,776
Total	$ 91,547	$ 89,613	$ 59	$ 59	$ 2,394	$ 2,404	$ 18,595	$ 18,772	$ 70,499	$ 68,378

Accumulated Other Comprehensive Loss

The following table displays our accumulated other comprehensive loss by major categories as of March 31, 2011 and December 31, 2010.

	As of	
	March 31, 2011	**December 31, 2010**
	(Dollars in millions)	
Net unrealized gains on available-for-sale securities for which we have not recorded other-than-temporary impairment	$ 446	$ 304
Net unrealized gains (losses) on available-for-sale securities for which we have recorded other-than-temporary impairment	(1,703)	(1,736)
Other	(244)	(250)
Accumulated other comprehensive loss	$ (1,501)	$ (1,682)

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table displays the activity in other comprehensive income, net of tax, by major categories for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Comprehensive loss:		
Net loss	$ (6,471)	$ (11,529)
Other comprehensive income (loss), net of tax:		
Changes in net unrealized losses on available-for-sale securities (net of tax of $87 and $710, respectively)	161	1,318
Reclassification adjustment for other-than-temporary impairments recognized in net loss (net of tax of $13 and $81, respectively)	32	155
Reclassification adjustment for gains included in net loss (net of tax of $8 and $56, respectively)	(14)	(103)
Other	2	2
Other comprehensive income	181	1,372
Total comprehensive loss	$ (6,290)	$ (10,157)

6. Financial Guarantees

For our guarantees to unconsolidated trusts and other guaranty arrangements, we recognize a guaranty obligation for our obligation to stand ready to perform on these guarantees. For those guarantees recognized in our condensed consolidated balance sheets, our maximum potential exposure under these guarantees is primarily comprised of the unpaid principal balance of the underlying mortgage loans, which totaled $52.5 billion and $52.4 billion as of March 31, 2011 and December 31, 2010, respectively. The maximum amount we could recover through available credit enhancements and recourse with third parties on guarantees recognized in our condensed consolidated balance sheets was $12.4 billion and $12.6 billion as of March 31, 2011 and December 31, 2010, respectively. In addition, we had exposure of $10.1 billion and $10.3 billion for other guarantees not recognized in our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010, respectively. The maximum amount we could recover through available credit enhancements and recourse with third parties on guarantees not recognized in our condensed consolidated balance sheets was $3.8 billion and $3.9 billion as of March 31, 2011 and December 31, 2010, respectively. Recoverability of such credit enhancements and recourse is subject to, among other factors, our mortgage insurers and financial guarantors ability to meet their obligations to us.

The fair value of our guaranty obligations associated with the Fannie Mae MBS included in Investments in securities was $1.9 billion and $2.0 billion as of March 31, 2011 and December 31, 2010, respectively.

Risk Characteristics of our Book of Business

We gauge our performance risk under our guaranty based on the delinquency status of the mortgage loans we hold in portfolio, or in the case of mortgage-backed securities, the mortgage loans underlying the related securities. Management also monitors the serious delinquency rate, which is the percentage of single-family loans three or more months past due or in the foreclosure process, and the percentage of multifamily loans 60 days or more past due, of loans that also have higher risk characteristics, such as high mark-to-market loan-to-value ratios and low original debt service coverage ratios. We use this information, in conjunction with

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

housing market and economic conditions, to structure our pricing and our eligibility and underwriting criteria to accurately reflect the current risk of loans with these higher-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

The following tables display the current delinquency status and certain higher risk characteristics of our single-family conventional and total multifamily guaranty book of business as of March 31, 2011 and December 31, 2010.

	As of March 31, 2011[1]			As of December 31, 2010[1]		
	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent[2]	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent[2]
Percentage of single-family conventional guaranty book of business[3]	1.83%	0.73%	5.05%	2.19%	0.89%	5.37%
Percentage of single-family conventional loans[4]	1.93	0.70	4.27	2.32	0.87	4.48

	As of March 31, 2011[1]		As of December 31, 2010[1]	
	Percentage of Single-Family Conventional Guaranty Book of Business[3]	Percentage Seriously Delinquent[2][4]	Percentage of Single-Family Conventional Guaranty Book of Business[3]	Percentage Seriously Delinquent[2][4]
Estimated mark-to-market loan-to-value ratio:				
Less than 100%	82%	2.36%	84%	2.62%
100.01% to 110%	6	9.79	5	11.60
110.01% to 120%	3	13.08	3	14.74
120.01% to 125%	1	14.69	1	16.86
Greater than 125%	8	22.45	7	24.71
Geographical distribution:				
Arizona	2	5.16	2	6.23
California	19	3.35	18	3.89
Florida	7	12.40	7	12.31
Nevada	1	9.40	1	10.66

Select Midwest states[5]	10	4.62	11	4.80
All other states	61	3.34	61	3.46
Product distribution (not mutually exclusive):[6]				
Alt-A	7	13.45	8	13.87
Subprime	*	27.47	*	28.20
Negatively amortizing adjustable rate	*	8.57	*	9.02
Interest only	5	17.10	6	17.85
Investor property	6	4.67	6	4.79
Condo/Coop	9	5.15	9	5.37
Original loan-to-value ratio >90%[7]	9	9.40	10	10.04
FICO credit score <620[7]	3	14.05	4	14.63
Original loan-to-value ratio >90% and FICO credit score <620[7]	1	20.20	1	21.41

113

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of March 31, 2011[1]		As of December 31, 2010[1]	
	Percentage of Single-Family Conventional Guaranty Book of Business[3]	Percentage Seriously Delinquent[2][4]	Percentage of Single-Family Conventional Guaranty Book of Business[3]	Percentage Seriously Delinquent[2][4]
Vintages:				
2005	8	7.17	9	7.20
2006	8	12.12	8	12.19
2007	11	13.08	12	13.24
2008	8	5.10	9	4.88
All other vintages	65	1.64	62	1.73

* Represents less than 0.5% of the single-family conventional guaranty book of business.

(1) Consists of the portion of our single-family conventional guaranty book of business for which we have detailed loan level information, which constituted over 99% of our total single-family conventional guaranty book of business as of both March 31, 2011 and December 31, 2010.

(2) Consists of single-family conventional loans that were three months or more past due or in foreclosure, as of the periods indicated.

(3) Calculated based on the aggregate unpaid principal balance of single-family conventional loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business.

(4) Calculated based on the number of single-family conventional loans that were delinquent divided by the total number of loans in our single-family conventional guaranty book of business.

(5) Consists of Illinois, Indiana, Michigan, and Ohio.

(6) Categories are not mutually exclusive. Loans with multiple product features are included in all applicable categories.

(7) Includes housing goals-oriented products such as MyCommunityMortgage® and Expanded Approval®.

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of March 31, 2011[1][2]		As of December 31, 2010[1][2]	
	30 Days Delinquent	Seriously Delinquent[3]	30 Days Delinquent	Seriously Delinquent[3]
Percentage of multifamily guaranty book of business	0.16%	0.64%	0.21%	0.71%

	As of March 31, 2011[1][2]		As of December 31, 2010[1][2]	
	Percentage of Multifamily Guaranty Book of Business	Percentage Seriously Delinquent[3]	Percentage of Multifamily Guaranty Book of Business	Percentage Seriously Delinquent[3]
Original loan-to-value ratio:				
Greater than 80%	5%	0.60%	5%	0.59%
Less than or equal to 80%	95	0.64	95	0.71
Original debt service coverage ratio:				
Less than or equal to 1.10	9	0.20	9	0.27
Greater than 1.10	91	0.68	91	0.75
Acquisition loan size distribution:				
Less than or equal to $750,000	2	1.59	2	1.61
Greater than $750,000 and less than or equal to $3 million	12	1.22	12	1.17
Greater than $3 million and less than or equal to $5 million	9	0.84	9	0.88
Greater than $5 million and less than or equal to $25 million	42	0.76	42	0.88
Greater than $25 million	35	0.18	35	0.24
Maturing dates:				
Maturing in 2011	3	1.10	3	0.68
Maturing in 2012	7	0.43	7	0.42
Maturing in 2013	10	0.46	11	0.54
Maturing in 2014	8	0.52	8	0.67
Maturing in 2015	9	0.70	9	0.57

(1) Consists of the portion of our multifamily guaranty book of business for which we have detailed loan level information, which constituted 99% of our total multifamily guaranty book of business as of both March 31, 2011 and December 31, 2010, respectively, excluding loans that have been defeased. Defeasance is a pre-payment of a

loan through substitution of collateral.

(2) Calculated based on the aggregate unpaid principal balance of multifamily loans for each category divided by the aggregate unpaid principal balance of loans in our multifamily guaranty book of business.

(3) Consists of multifamily loans that were 60 days or more past due as of the periods indicated.

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

7. Acquired Property, Net

Acquired property, net consists of held-for-sale foreclosed property received in full satisfaction of a loan net of a valuation allowance for declines in the fair value of foreclosed properties after initial acquisition. We classify as held for sale those properties that we intend to sell and are actively marketed for sale. The following table displays the activity in acquired property and the related valuation allowance for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Acquired Property	Valuation Allowance[1]	Acquired Property, Net	Acquired Property	Valuation Allowance[1]	Acquired Property, Net
	(Dollars in millions)					
Beginning balance, January 1	$ 18,054	$ (1,881)	$ 16,173	$ 9,716	$ (574)	$ 9,142
Additions	4,889	(129)	4,760	6,762	(52)	6,710
Disposals	(6,015)	730	(5,285)	(3,425)	206	(3,219)
Write-downs, net of recoveries		(384)	(384)		(264)	(264)
Ending balance, March 31	$ 16,928	$ (1,664)	$ 15,264	$ 13,053	$ (684)	$ 12,369

(1) Reflects activities in the valuation allowance for acquired properties held primarily by our single-family segment.

8. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings

The following table displays our outstanding short-term borrowings (borrowing with an original contractual maturity of one year or less) and weighted-average interest rates of these borrowings as of March 31, 2011 and December 31, 2010.

As of			
March 31, 2011		December 31, 2010	
	Weighted-Average		Weighted-Average

	Outstanding	Interest Rate[1]	Outstanding	Interest Rate[1]
	(Dollars in millions)			
Federal funds purchased and securities sold under agreements to repurchase	$ 25	0.01%	$ 52	2.20%
Fixed-rate short-term debt:				
Discount notes	$ 146,751	0.26%	$ 151,500	0.32%
Foreign exchange discount notes	341	2.51	384	2.43
Total short-term debt of Fannie Mae	147,092	0.27	151,884	0.32
Debt of consolidated trusts	5,156	0.22	5,359	0.23
Total short-term debt	$ 152,248	0.27%	$ 157,243	0.32%

(1) Includes the effects of discounts, premiums, and other cost basis adjustments.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Long-Term Debt

Long-term debt represents borrowings with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt as of March 31, 2011 and December 31, 2010.

	As of					
	March 31, 2011			December 31, 2010		
	Maturities	Outstanding	Weighted-Average Interest Rate[1]	Maturities	Outstanding	Weighted-Average Interest Rate[1]
	(Dollars in millions)					
Senior fixed:						
Benchmark notes and bonds	2011 - 2030	$ 291,851	3.14%	2011 - 2030	$ 300,344	3.20%
Medium-term notes	2011 - 2021	190,950	2.00	2011 - 2020	199,266	2.13
Foreign exchange notes and bonds	2017 - 2028	1,204	6.07	2017 - 2028	1,177	6.21
Other long-term debt[2]	2011 - 2040	47,630	5.64	2011 - 2040	44,893	5.64
Total senior fixed		531,635	2.96		545,680	3.02
Senior floating:						
Medium-term notes	2011 - 2016	74,454	0.30	2011 - 2015	72,039	0.31
Other long-term debt[2]	2020 - 2037	389	5.27	2020 - 2037	386	4.92
Total senior floating		74,843	0.32		72,425	0.34
Subordinated fixed:						
Qualifying subordinated[3]	2012 - 2014	4,893	5.08	2011 - 2014	7,392	5.47
Subordinated debentures	2019	2,724	9.91	2019	2,663	9.91
Total subordinated fixed		7,617	6.80		10,055	6.65
Total long-term debt of Fannie Mae[4]		614,095	2.69		628,160	2.77
Debt of consolidated trusts[2]	2011 - 2051	2,442,433	4.61	2011 - 2051	2,411,597	4.59
Total long-term debt		$ 3,056,528	4.23%		$ 3,039,757	4.22%

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

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

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

(4) Reported amounts include a net discount and other cost basis adjustments of $11.4 billion and $12.4 billion as of March 31, 2011 and December 31, 2010, respectively.

Intraday Lines of Credit

We periodically use secured and unsecured intraday funding lines of credit provided by several large financial institutions. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As these lines of credit are uncommitted intraday loan facilities, we may be unable to draw on them if and when needed. We had secured uncommitted lines of credit of $25.0 billion and unsecured uncommitted lines of credit of $500 million as of both March 31, 2011 and December 31, 2010. We had no borrowings outstanding from these lines of credit as of March 31, 2011.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

9. Derivative Instruments

Derivative instruments are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange. We typically do not settle the notional amount of our risk management derivatives; rather, notional amounts provide the basis for calculating actual payments or settlement amounts. The derivatives we use for interest rate risk management purposes consist primarily of interest rate swaps, interest rate options, foreign currency swaps and futures.

We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the criteria of a derivative. We typically settle the notional amount of our mortgage commitments that are accounted for as derivatives.

We recognize all derivatives as either assets or liabilities in our condensed consolidated balance sheets at their fair value on a trade date basis. Fair value amounts, which are netted to the extent a legal right of offset exists and is enforceable by law at the counterparty level and are inclusive of cash collateral posted or received, are recorded in Other assets or Other liabilities in our condensed consolidated balance sheets. We record all derivative gains and losses, including accrued interest, in Fair value gains (losses), net in our condensed consolidated statements of operations and comprehensive loss.

Notional and Fair Value Position of our Derivatives

The following table displays the notional amount and estimated fair value of our asset and liability derivative instruments as of March 31, 2011 and December 31, 2010.

	As of March 31, 2011				As of December 31, 2010			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	(Dollars in millions)							
Risk management derivatives:								
Swaps:								
Pay-fixed	$ 72,172	$ 2,074	$ 198,078	$ (10,764)	$ 49,085	$ 1,812	$ 228,142	$ (14,115)
Receive-fixed	150,481	5,180	64,296	(868)	172,174	6,493	52,003	(578)
Basis	415	43	1,150	(3)	435	29	50	
Foreign currency	1,223	161	372	(45)	1,274	164	286	(51)
Swaptions:								
Pay-fixed	73,750	737	58,300	(1,844)	66,200	482	30,950	(1,773)

Receive-fixed	54,440	4,074	58,300	(849)	48,340	4,992	30,275	(673)
Interest rate caps	7,000	20			7,000	24		
Other[(1)]	1,047	80	100	(1)	909	75	25	(1)
Total gross risk management derivatives	360,528	12,369	380,596	(14,374)	345,417	14,071	341,731	(17,191)
Accrued interest receivable (payable)		1,221		(1,981)		1,288		(1,805)
Netting adjustment[(2)]		(13,478)		15,622		(15,175)		18,023
Total net risk management derivatives	$ 360,528	$ 112	$ 380,596	$ (733)	$ 345,417	$ 184	$ 341,731	$ (973)

118

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	As of March 31, 2011				As of December 31, 2010			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	(Dollars in millions)							
Mortgage commitment derivatives:								
Mortgage commitments to purchase whole loans	$ 2,017	$ 9	$ 1,075	$ (4)	$ 2,880	$ 19	$ 4,435	$ (105)
Forward contracts to purchase mortgage-related securities	20,310	111	12,828	(60)	19,535	123	27,697	(468)
Forward contracts to sell mortgage-related securities	13,149	47	25,959	(144)	40,761	811	24,562	(169)
Total mortgage commitment derivatives	$ 35,476	$ 167	$ 39,862	$ (208)	$ 63,176	$ 953	$ 56,694	$ (742)
Derivatives at fair value	$ 396,004	$ 279	$ 420,458	$ (941)	$ 408,593	$ 1,137	$ 398,425	$ (1,715)

(1) Includes futures, swap credit enhancements and mortgage insurance contracts that we account for as derivatives. The mortgage insurance contracts have payment provisions that are not based on a notional amount.

(2) The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting agreements to settle with the same counterparty on a net basis, as well as cash collateral receivable and payable. Cash collateral receivable was $2.8 billion and $3.5 billion as of March 31, 2011 and December 31, 2010, respectively. Cash collateral payable was $704 million and $604 million as of March 31, 2011 and December 31, 2010, respectively.

A majority of our derivative instruments contain provisions that require our senior unsecured debt to maintain a minimum credit rating from each of the major credit rating agencies. If our senior unsecured debt were to fall below established thresholds in our governing agreements, which range from A- to BBB+, we would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivatives with credit-risk-related contingent features that were in a net liability position as of March 31, 2011 was $3.6 billion for which we posted collateral of $2.8 billion in the normal course of business. If the credit-risk-related contingency features underlying these agreements were triggered as of March 31, 2011, we would be required to post an additional $734 million of collateral to our counterparties.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table displays, by type of derivative instrument, the fair value gains and losses, net on our derivatives for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Risk management derivatives:		
Swaps:		
Pay-fixed	$ 602	$ (5,879)
Receive-fixed	(256)	4,669
Basis	19	9
Foreign currency	30	(3)
Swaptions:		
Pay-fixed	(55)	(934)
Receive-fixed	(233)	27
Interest rate caps	(4)	(56)
Other[1]	13	6
Total risk management derivatives fair value gains (losses), net	116	(2,161)
Mortgage commitment derivatives fair value gains (losses), net	23	(601)
Total derivatives fair value gains (losses), net	$ 139	$ (2,762)

(1) Includes futures, swap credit enhancements and mortgage insurance contracts.

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate and foreign currency derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us. If there is a default, we may need to acquire a replacement derivative from a different counterparty at a higher cost or may be unable to find a suitable replacement. Typically, we seek to manage credit exposure by contracting with experienced counterparties that are rated A- (or its equivalent) or better. We also manage our exposure by requiring counterparties to post collateral. The collateral includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The table below displays our credit exposure on outstanding risk management derivative instruments in a gain position by counterparty credit ratings, as well as the notional amount outstanding and the number of counterparties for all risk management derivatives as of March 31, 2011 and December 31, 2010.

	As of March 31, 2011				
	Credit Rating[1]				
	AA+/AA/AA-	A+/A	Subtotal[2]	Other[3]	Total
	(Dollars in millions)				
Credit loss exposure[4]	$ 77	$ 651	$ 728	$ 77	$ 805
Less: Collateral held[5]	55	646	701		701
Exposure net of collateral	$ 22	$ 5	$ 27	$ 77	$ 104
Additional information:					
Notional amount	$ 209,395	$ 529,732	$ 739,127	$ 1,997	$ 741,124
Number of counterparties	7	8	15		

	As of December 31, 2010				
	Credit Rating[1]				
	AA+/AA/AA-	A+/A	Subtotal[2]	Other[3]	Total
	(Dollars in millions)				
Credit loss exposure[4]	$ 350	$ 325	$ 675	$ 75	$ 750
Less: Collateral held[5]	273	325	598		598
Exposure net of collateral	$ 77	$	$ 77	$ 75	$ 152
Additional information:					
Notional amount	$ 208,898	$ 476,766	$ 685,664	$ 1,484	$ 687,148
Number of counterparties	7	8	15		

(1) We manage collateral requirements based on the lower credit rating of the legal entity, as issued by Standard & Poor s and Moody s. The credit rating reflects the equivalent Standard & Poor s rating for any ratings based on Moody s scale.

(2) We had exposure to 4 and 3 interest rate and foreign currency derivative counterparties in a net gain position as of March 31, 2011 and December 31, 2010, respectively. Those interest rate and foreign currency derivatives had notional balances of $125.1 billion and $106.5 billion as of March 31, 2011 and December 31, 2010, respectively.

(3) Includes defined benefit mortgage insurance contracts and swap credit enhancements accounted for as derivatives where the right of legal offset does not exist. Also includes exchange-traded derivatives, such as futures and interest rate swaps, which are settled daily through a clearinghouse.

(4) Represents the exposure to credit loss on derivative instruments, which we estimate using the fair value of all outstanding derivative contracts in a gain position. We net derivative gains and losses with the same counterparty where a legal right of offset exists under an enforceable master netting agreement. This table excludes mortgage commitments accounted for as derivatives.

(5) Represents both cash and non-cash collateral posted by our counterparties to us. Does not include collateral held in excess of exposure. We reduce the value of non-cash collateral in accordance with the counterparty agreements to help ensure recovery of any loss through the disposition of the collateral. We posted cash collateral of $2.8 billion and $3.4 billion related to our counterparties credit exposure to us as of March 31, 2011 and December 31, 2010, respectively.

121

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

10. Segment Reporting

Our three reportable segments are: Single-Family, Multifamily, and Capital Markets. We use these three segments to generate revenue and manage business risk, and each segment is based on the type of business activities it performs. We are working on reorganizing our company by function rather than by business in order to improve our operational efficiencies and effectiveness. When we begin operating under a functional structure, we may change some of our management reporting and how we report our business segment results.

Under our segment reporting, the sum of the results for our three business segments does not equal our condensed consolidated statements of operations and comprehensive loss, as we separate the activity related to our consolidated trusts from the results generated by our three segments. Our segment financial results include directly attributable revenues and expenses. Additionally, we allocate to each of our segments: (1) capital using FHFA minimum capital requirements adjusted for over- or under-capitalization; (2) indirect administrative costs; and (3) a provision or benefit for federal income taxes. In addition, we allocate intracompany guaranty fee income as a charge from the Single-Family and Multifamily segments to Capital Markets for managing the credit risk on mortgage loans held by the Capital Markets group. We also include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated statements of operations.

The following tables display our segment results for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31, 2011					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (expense)	$ (898)	$ (9)	$ 3,710	$ 1,574	$ 583[3]	$ 4,960
Benefit (provision) for loan losses	(10,612)	25				(10,587)
Net interest income (expense) after provision for loan losses	(11,510)	16	3,710	1,574	583	(5,627)
Guaranty fee income (expense)	1,871	209	(399)	(1,110)[4]	(521)[4]	50[4]
Investment gains (losses), net	1	4	870	(26)	(774)[5]	75
Net other-than-temporary impairments			(44)			(44)
Fair value gains (losses), net			218	(33)	104[6]	289
Debt extinguishment gains (losses), net			(24)	37		13
Losses from partnership investments		(12)				(12)[7]
Fee and other income (expense)	147	58	75	(92)	(1)	187

Administrative expenses	(416)	(68)	(121)			(605)
Benefit (provision) for guaranty losses	(6)	39				33
Foreclosed property expense	(488)					(488)
Other income (expenses)	(318)	6	(9)		(19)	(340)
Income (loss) before federal income taxes	(10,719)	252	4,276	350	(628)	(6,469)
Benefit (provision) for federal income taxes	(2)	(5)	5			(2)
Net income (loss) attributable to Fannie Mae	$ (10,721)	$ 247	$ 4,281	$ 350	$ (628)	$ (6,471)

122

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	For the Three Months Ended March 31, 2010					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (expense)	$ (1,945)	$ 4	$ 3,057	$ 1,239	$ 434[3]	$ 2,789
Benefit (provision) for loan losses	(11,945)	6				(11,939)
Net interest income (expense) after provision for loan losses	(13,890)	10	3,057	1,239	434	(9,150)
Guaranty fee income (expense)	1,768	194	(279)	(1,197)[4]	(432)[4]	54[4]
Investment gains (losses), net	2		792	(155)	(473)[5]	166
Net other-than-temporary impairments			(236)			(236)
Fair value losses, net			(1,186)	(35)	(484)[6]	(1,705)
Debt extinguishment losses, net			(55)	(69)		(124)
Losses from partnership investments		(58)				(58)[7]
Fee and other income (expense)	47	35	104	(7)		179
Administrative expenses	(390)	(99)	(116)			(605)
Benefit (provision) for guaranty losses	(11)	47				36
Foreclosed property income (expense)	30	(11)				19
Other income (expenses)	(172)	(6)	27		(21)	(172)
Income (loss) before federal income taxes	(12,616)	112	2,108	(224)	(976)	(11,596)
Benefit (provision) for federal income taxes	51	(13)	29			67
Net income (loss)	(12,565)	99	2,137	(224)	(976)	(11,529)
Less: Net income attributable to noncontrolling interests					(1)[8]	(1)
Net income (loss) attributable to Fannie Mae	$ (12,565)	$ 99	$ 2,137	$ (224)	$ (977)	$ (11,530)

(1) Represents activity related to the assets and liabilities of consolidated trusts in our condensed consolidated balance sheets.

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

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

(4) Represents the guaranty fees paid from consolidated trusts to the Single-Family and Multifamily segments. The adjustment to guaranty fee income in the Eliminations/Adjustments column represents the elimination of the amortization of deferred cash fees related to consolidated trusts that were re-established for segment reporting. Total guaranty fee income is included in fee and other income in our condensed consolidated statements of operations and comprehensive loss.

(5) Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as available-for-sale securities that are issued by consolidated trusts and retained in the Capital Markets portfolio. The adjustment also includes the removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.

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

(7) Losses from partnership investments are included in other expenses in our condensed consolidated statements of operations and comprehensive loss.

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

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

11. Regulatory Capital Requirements

FHFA has announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship, and that FHFA will not issue quarterly capital classifications during the conservatorship. We submit capital reports to FHFA during the conservatorship and FHFA monitors our capital levels.

The following table displays our regulatory capital classification measures as of March 31, 2011 and December 31, 2010.

	As of	
	March 31, 2011[1]	December 31, 2010[1]
	(Dollars in millions)	
Core capital[2]	$ (98,199)	$ (89,516)
Statutory minimum capital requirement[3]	32,530	33,676
Deficit of core capital over statutory minimum capital requirement	$ (130,729)	$ (123,192)
Deficit of core capital percentage over statutory minimum capital requirement	(402)%	(366)%

(1) Amounts as of March 31, 2011 and December 31, 2010 represent estimates that have been submitted to FHFA.

(2) The sum of (a) the stated value of our outstanding common stock (common stock less treasury stock); (b) the stated value of our outstanding non-cumulative perpetual preferred stock; (c) our paid-in capital; and (d) our retained earnings (accumulated deficit). Core capital does not include: (a) accumulated other comprehensive income (loss) or (b) senior preferred stock.

(3) Generally, the sum of (a) 2.50% of on-balance sheet assets, except those underlying Fannie Mae MBS held by third parties; (b) 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances (See 12 CFR 1750.4 for existing adjustments made by the Director).

12. Concentration of Credit Risk

Mortgage Seller/Servicers. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our business with mortgage servicers is concentrated. Our ten largest single-family mortgage servicers, including their affiliates, serviced 76% of our single-family guaranty book of business as of March 31, 2011, compared with 77% as of December 31, 2010. Our ten largest multifamily mortgage servicers, including their

affiliates, serviced 69% of our multifamily guaranty book of business as of March 31, 2011, compared with 70% as of December 31, 2010.

If one of our principal mortgage seller/servicers fails to meet its obligations to us, it could increase our credit-related expenses and credit losses, result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth.

Mortgage Insurers. Mortgage insurance risk in force represents our maximum potential loss recovery under the applicable mortgage insurance policies. We had total mortgage insurance coverage risk in force of $94.8 billion on the single-family mortgage loans in our guaranty book of business as of March 31, 2011, which represented approximately 3% of our single-family guaranty book of business. Our primary and pool mortgage insurance coverage risk in force on single-family mortgage loans in our guaranty book of business represented $90.2 billion and $4.6 billion, respectively, as of March 31, 2011, compared with $91.2 billion and

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

$4.7 billion, respectively, as of December 31, 2010. Eight mortgage insurance companies provided over 99% of our mortgage insurance as of both March 31, 2011 and December 31, 2010.

Increases in mortgage insurance claims due to higher defaults and credit losses in recent periods have adversely affected the financial results and financial condition of many mortgage insurers. The current weakened financial condition of our mortgage insurer counterparties creates an increased risk that these counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of these mortgage insurer counterparties, it could result in an increase in our loss reserves, which could adversely affect our earnings, liquidity, financial condition and net worth.

As of March 31, 2011, our allowance for loan losses of $67.6 billion, allowance for accrued interest receivable of $2.9 billion and reserve for guaranty losses of $257 million incorporated an estimated recovery amount of approximately $16.5 billion from mortgage insurance related both to loans that are individually measured for impairment and those that are collectively reserved. This amount is comprised of the contractual recovery of approximately $17.4 billion as of March 31, 2011 and an adjustment of approximately $975 million which reduces the contractual recovery for our assessment of our mortgage insurer counterparties inability to fully pay those claims.

We had outstanding receivables of $4.1 billion in Other assets in our condensed consolidated balance sheet as of March 31, 2011 and $4.4 billion as of December 31, 2010 related to amounts claimed on insured, defaulted loans that we have not yet received, of which $650 million as of March 31, 2011 and $648 million as of December 31, 2010 was due from our mortgage seller/servicers. We assessed the receivables for collectibility, and they are recorded net of a valuation allowance of $271 million as of March 31, 2011 and $317 million as of December 31, 2010 in Other assets. These mortgage insurance receivables are short-term in nature, having a duration of approximately three to six months, and the valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of March 31, 2011 and December 31, 2010. We received proceeds under our primary and pool mortgage insurance policies for single-family loans of $1.6 billion for the three months ended March 31, 2011 and $6.4 billion for the year ended December 31, 2010. We negotiated the cancellation and restructurings of some of our mortgage insurance coverage in exchange for a fee. The cash fees received of $796 million for the year ended December 31, 2010 are included in our total insurance proceeds amount; there were no such cash fees received in the three months ended March 31, 2011. These fees represented an acceleration of, and discount on, claims to be paid pursuant to the coverage in order to reduce future exposure to our mortgage insurers and were recorded as a reduction to our Foreclosed property expense (income).

Financial Guarantors. We were the beneficiary of financial guarantees totaling $8.6 billion and $8.8 billion as of March 31, 2011 and December 31, 2010, respectively, on securities held in our investment portfolio or on securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The securities covered by these guarantees consist primarily of private-label mortgage-related securities and mortgage revenue bonds. In addition, we are the beneficiary of financial guarantees totaling $23.9 billion and $25.7 billion as of March 31, 2011 and December 31, 2010, respectively, obtained from Freddie Mac, the federal government, and its agencies. These financial guaranty contracts assure the collectibility of timely interest and ultimate principal payments on the guaranteed securities if the cash flows generated by the underlying collateral are not sufficient to fully support these payments.

If a financial guarantor fails to meet its obligations to us with respect to the securities for which we have obtained financial guarantees, it could reduce the fair value of our mortgage-related securities and result in financial losses to us, which could have a material adverse effect on our earnings, liquidity, financial condition

and net worth. We model the fair value of our securities assuming the benefit of those external financial guarantees that we determine are creditworthy.

Lenders with Risk Sharing. We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $14.8 billion as of March 31, 2011 and $15.6 billion as of December 31, 2010. As of March 31, 2011, 55% of our maximum potential loss recovery on single-family loans was from three lenders. As of December 31, 2010, 56% of our maximum potential loss recovery on single-family loans was from three lenders. Our maximum potential loss recovery from lenders under these risk sharing agreements on multifamily loans was $30.7 billion as of March 31, 2011 and $30.3 billion as of December 31, 2010. As of both March 31, 2011 and December 31, 2010, 41% of our maximum potential loss recovery on multifamily loans was from three lenders.

13. Fair Value

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis.

Fair Value Measurement

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value and expands disclosures around fair value measurements. This guidance applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements of assets and liabilities based on limited observable inputs or observable inputs for similar assets and liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Recurring Changes in Fair Value

The following tables display our assets and liabilities measured in our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option as of March 31, 2011 and December 31, 2010. Specifically, total assets measured at fair value on a recurring basis and classified as Level 3 were $38.2 billion, or 1% of Total assets, and $39.0 billion, or 1% of Total assets, in our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010, respectively.

	Fair Value Measurements as of March 31, 2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Assets:					
Cash equivalents[2]	$ 3,150	$ 2,950	$	$	$ 6,100
Trading securities:					
Mortgage-related securities:					
Fannie Mae		5,480	1,651		7,131
Freddie Mac		1,201			1,201
Ginnie Mae		311			311
Alt-A private-label securities		1,638	20		1,658
Subprime private-label securities			1,547		1,547
CMBS		10,943			10,943
Mortgage revenue bonds			606		606
Other			155		155
Non-mortgage-related securities:					
U.S. Treasury securities	29,383				29,383
Asset-backed securities		4,098	2		4,100
Total trading securities	29,383	23,671	3,981		57,035
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae		20,097	546		20,643
Freddie Mac		15,344	12		15,356
Ginnie Mae		1,004			1,004
Alt-A private-label securities		6,456	7,236		13,692

Subprime private-label securities			9,660		9,660
CMBS		14,924			14,924
Mortgage revenue bonds		10	10,532		10,542
Other		16	3,776		3,792
Total available-for-sale securities		57,851	31,762		89,613
Mortgage loans of consolidated trusts		748	2,221		2,969
Other assets:					
Risk management derivatives:					
Swaps		8,523	156		8,679
Swaptions		4,811			4,811
Interest rate caps		20			20
Other	3		77		80
Netting adjustment				(13,478)	(13,478)
Mortgage commitment derivatives		161	6		167
Total other assets	3	13,515	239	(13,478)	279
Total assets at fair value	$ 32,536	$ 98,735	$ 38,203	$ (13,478)	$ 155,996

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Fair Value Measurements as of March 31, 2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior fixed	$	$ 461	$	$	$ 461
Senior floating			423		423
Total of Fannie Mae		461	423		884
Of consolidated trusts		1,526	667		2,193
Total long-term debt		1,987	1,090		3,077
Other liabilities:					
Risk management derivatives:					
Swaps		13,560	101		13,661
Swaptions		2,693			2,693
Other	1				1
Netting adjustment				(15,622)	(15,622)
Mortgage commitment derivatives		188	20		208
Total other liabilities	1	16,441	121	(15,622)	941
Total liabilities at fair value	$ 1	$ 18,428	$ 1,211	$ (15,622)	$ 4,018

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Fair Value Measurements as of December 31, 2010				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Assets:					
Cash equivalents[2]	$ 4,049	$ 2,300	$	$	$ 6,349
Trading securities:					
Mortgage-related securities:					
Fannie Mae		5,196	2,202		7,398
Freddie Mac		1,326			1,326
Ginnie Mae		590			590
Alt-A private-label securities		1,663	20		1,683
Subprime private-label securities			1,581		1,581
CMBS		10,764			10,764
Mortgage revenue bonds			609		609
Other			152		152
Non-mortgage-related securities:					
U.S. Treasury securities	27,432				27,432
Asset-backed securities		5,309	12		5,321
Total trading securities	27,432	24,848	4,576		56,856
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae		22,714	114		22,828
Freddie Mac		16,993	3		16,996
Ginnie Mae		1,039			1,039
Alt-A private-label securities		6,841	7,049		13,890
Subprime private-label securities			9,932		9,932
CMBS		14,844			14,844
Mortgage revenue bonds		11	11,030		11,041
Other		16	3,806		3,822
Total available-for-sale securities		62,458	31,934		94,392
Mortgage loans of consolidated trusts		755	2,207		2,962
Other assets:					

Risk management derivatives:					
Swaps		9,623	163		9,786
Swaptions		5,474			5,474
Interest rate caps		24			24
Other	3		72		75
Netting adjustment				(15,175)	(15,175)
Mortgage commitment derivatives		941	12		953
Total other assets	3	16,062	247	(15,175)	1,137
Total assets at fair value	$ 31,484	$ 106,423	$ 38,964	$ (15,175)	$ 161,696

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Fair Value Measurements as of December 31, 2010				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior fixed	$	$ 472	$	$	$ 472
Senior floating			421		421
Total of Fannie Mae		472	421		893
Of consolidated trusts		1,644	627		2,271
Total long-term debt		2,116	1,048		3,164
Other liabilities:					
Risk management derivatives:					
Swaps		16,436	113		16,549
Swaptions		2,446			2,446
Other	1				1
Netting adjustment				(18,023)	(18,023)
Mortgage commitment derivatives		712	30		742
Total other liabilities	1	19,594	143	(18,023)	1,715
Total liabilities at fair value	$ 1	$ 21,710	$ 1,191	$ (18,023)	$ 4,879

(1) Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting agreements to settle with the same counterparty on a net basis, as well as cash collateral.

(2)

Cash equivalents is comprised of U.S. Treasuries that are classified as Level 1 and money market funds that are classified as Level 2.

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following tables display a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2011 and 2010. The tables also display gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our condensed consolidated statements of operations and comprehensive loss for Level 3 assets and liabilities for the three months ended March 31, 2011 and 2010. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Three Months Ended March 31, 2011

	Balance, December 31, 2010	Total Gains or (Losses) (Realized/Unrealized) Included in Net Loss	Included in Other Comprehensive Income	Purchases[3]	Sales[3]	Settlements[4]	Transfers Out of Level 3[1]	Transfers into Level 3[1]	Balance, March 31, 2011	Net Unrealize Gains (Losses) Include in Net Loss Related to Assets and Liabiliti Still Held as of March 3 2011[2]
	(Dollars in millions)									
rading securities:										
lortgage-related:										
annie Mae	$ 2,202	$ (13)	$	$	$ (15)	$ (132)	$ (391)	$	$ 1,651	$ (10)
lt-A private-label securities	20								20	
ubprime private-label ecurities	1,581	11				(45)			1,547	11
lortgage revenue bonds	609					(3)			606	3
)ther	152	4				(1)			155	4
lon-mortgage-related:										
sset-backed securities	12					(3)	(9)	2	2	

otal trading securities	4,576	2			(15)	(184)	(400)	2	3,981	8
vailable-for-sale securities:										
ortgage-related:										
annie Mae	114		4	416	(15)	(2)	(101)	130	546	
reddie Mac	3							9	12	
lt-A private-label securities	7,049	(2)	104			(258)	(317)	660	7,236	
ubprime private-label ecurities	9,932	130	(58)			(344)			9,660	
ortgage revenue bonds	11,030	(2)	21		(42)	(475)			10,532	
ther	3,806	1	71			(102)			3,776	
otal available-for-sale ecurities	31,934	127	142	416	(57)	(1,181)	(418)	799	31,762	
ortgage loans of onsolidated trusts	2,207	11		15		(79)	(6)	73	2,221	11
et derivatives	104	14							118	5
ong-term debt:										
f Fannie Mae:										
enior floating	(421)	(22)				20			(423)	(22)
f consolidated trusts	(627)	(35)				22	22	(49)	(667)	(35)
otal long-term debt	$ (1,048)	$ (57)	$	$	$	$ 42	$ 22	$ (49)	$ (1,090)	$ (57)

131

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Three Months Ended March 31, 2010

	Balance, December 31, 2009	Impact of New Accounting Standards	Total Gains or (Losses) (Realized/Unrealized) Included in Net Loss	Total Gains or (Losses) (Realized/Unrealized) Included in Other Comprehensive Income	Purchases, Sales, Issuances, and Settlements, Net	Transfers Out of Level 3[(1)]	Transfers into Level 3[(1)]	Balance, March 31, 2010	Net Unrealize Gains (Losses) Included in Net Loss Related to Assets and Liabilitie Still Held as of March 31 2010[(2)]
	(Dollars in millions)								
Trading securities:									
Mortgage-related:									
Fannie Mae	$ 5,656	$ (2)	$ 38	$	$ (131)	$ (1,490)	$ 5	$ 4,076	$ 43
Alt-A private-label securities	564	62	23		(36)	(490)	30	153	
Subprime private-label securities	1,780		(26)		(71)			1,683	(26)
Mortgage revenue bonds	600		50		(39)			611	47
Other	154		5		(1)			158	5
Non-mortgage-related:									
Asset-backed securities	107		(1)		(36)	(40)	13	43	1
Total trading securities	8,861	60	89		(314)	(2,020)	48	6,724	70
Available-for-sale securities:									
Mortgage-related:									
Fannie Mae	596	(203)	(2)	1	167	(344)	2	217	
Freddie Mac	27				(3)		6	30	
Ginnie Mae	123							123	
Alt-A private-label securities	8,312	471	(4)	267	(312)	(1,011)	794	8,517	

Subprime private-label securities	10,746	(118)	(88)	463	(492)			10,511	
Mortgage revenue bonds	12,820	21	(1)	233	(514)			12,559	
Other	3,530	366	(5)	110	(128)			3,873	
Total available-for-sale securities	36,154	537	(100)	1,074	(1,282)	(1,355)	802	35,830	
Guaranty assets and buy-ups	2,577	(2,568)			2			11	1
Net derivatives	123		35		(18)			140	(2)
Long-term debt:									
Of Fannie Mae:									
Senior floating	(601)		14		5			(582)	15
Of consolidated trusts		(77)	(1)			9	(2)	(71)	
Total long-term debt	$ (601)	$ (77)	$ 13	$	$ 5	$ 9	$ (2)	$ (653)	$ 15

(1) Transfers out of Level 3 consisted primarily of Fannie Mae guaranteed mortgage-related securities and private-label mortgage-related securities backed by Alt-A loans. Prices for these securities were obtained from multiple third-party vendors supported by market observable inputs. The transfers into Level 3 consisted primarily of private-label mortgage-related securities backed by Alt-A loans as well as Fannie Mae guaranteed mortgage-related securities. Prices for these securities are based on inputs from a single source or inputs that were not readily observable.

(2) Amount represents temporary changes in fair value. Amortization, accretion and other-than-temporary impairments are not considered unrealized and are not included in this amount.

(3) Purchases and sales include activity related to the consolidation and deconsolidation of assets of securitized trusts.

(4) Issuances and settlements include activity related to the consolidation and deconsolidation of liabilities of securitized trusts.

132

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following tables display realized and unrealized gains and losses included in our condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2011 and 2010, for our Level 3 assets and liabilities measured in our condensed consolidated balance sheets at fair value on a recurring basis.

	For the Three Months Ended March 31, 2011				
	Interest Income	Fair Value Gains (Losses), net	Net Other-than-Temporary Impairments	Other	Total
	(Dollars in millions)				
Total realized and unrealized gains (losses) included in net loss	$ 135	$ (24)	$ (17)	$ 3	$ 97
Net unrealized losses related to Level 3 assets and liabilities still held as of March 31, 2011	$	$ (33)	$	$	$ (33)

	For the Three Months Ended March 31, 2010				
	Interest Income	Fair Value Gains (Losses), net	Net Other-than-Temporary Impairments	Other	Total
	(Dollars in millions)				
Total realized and unrealized gains (losses) included in net loss	$ 111	$ 133	$ (212)	$ 5	$ 37
Net unrealized gains related to Level 3 assets and liabilities still held as of March 31, 2010	$	$ 83	$	$ 1	$ 84

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation techniques we use for assets and liabilities measured at fair value on a recurring basis, as well as our basis for classifying these assets and liabilities as Level 1, Level 2 or Level 3. These valuation techniques are also used to estimate the fair value of financial instruments not carried at fair value but disclosed as part of the fair value of financial instruments.

Cash Equivalents, Trading Securities and Available-for-Sale Securities These securities are recorded in our condensed consolidated balance sheets at fair value on a recurring basis. Fair value is measured using quoted market prices in active markets for identical assets, when available. Securities, such as U.S. Treasuries, whose value is based on quoted market prices in active markets for identical assets are classified as Level 1. If quoted market prices in active markets

for identical assets are not available, we use prices provided by up to four third-party pricing services that are calibrated to the quoted market prices in active markets for similar securities, and assets valued in this manner are classified as Level 2. In the absence of prices provided by third-party pricing services supported by observable market data, fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flow models that use inputs such as spread, prepayment speed, yield, and loss severity based on market assumptions where available. Such instruments are generally classified as Level 2. Where there is limited activity or less transparency around inputs to the valuation, securities are classified as Level 3.

Mortgage Loans Held for Investment HFI The majority of HFI performing loans and nonperforming loans that are not individually impaired are reported in our condensed consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments and an allowance for loan losses. We elected the fair value option for certain loans containing embedded derivatives that would otherwise require bifurcation and consolidated loans of senior-subordinate trust structures, which are recorded in our condensed consolidated balance sheets at fair value on a recurring basis.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Fair value of performing loans represents an estimate of the prices we would receive if we were to securitize those loans and is determined based on comparisons to Fannie Mae MBS with similar characteristics, either on a pool or loan level. We use the observable market values of our Fannie Mae MBS determined from third-party pricing services and other observable market data as a base value, from which we add or subtract the fair value of the associated guaranty asset, guaranty obligation and master servicing arrangement. We classify these valuations primarily within Level 2 of the valuation hierarchy given that the market values of our Fannie Mae MBS are calibrated to the quoted market prices in active markets for similar securities. To the extent that significant inputs are not observable or determined by extrapolation of observable points, the loans are classified within Level 3. Certain loans that do not qualify for Fannie Mae MBS securitization are valued using market-based data including, for example, credit spreads, severities and prepayment speeds for similar loans, through third-party pricing services or through a model approach incorporating both interest rate and credit risk simulating a loan sale via a synthetic structure.

Fair value of single-family nonperforming loans represents an estimate of the prices we would receive if we were to sell these loans in the nonperforming whole-loan market. We calculate the fair value of nonperforming loans based on assumptions about key factors, including loan performance, collateral value, foreclosure related expenses, disposition timeline, and mortgage insurance repayment. Using these assumptions, along with indicative bids for a representative sample of nonperforming loans, we compute a market calibrated fair value. The bids on sample loans are obtained from multiple active market participants. Fair value for loans that are four or more months delinquent, in an open modification period, or in a closed modification and that have performed for nine or fewer months, is estimated directly from a model calibrated to these indicative bids. Fair value for loans that are one to three months delinquent is estimated by an interpolation method using three inputs: (1) the fair value estimate as a performing loan; (2) the fair value estimate as a nonperforming loan; and (3) the delinquency transition rate corresponding to the loan s current delinquency status.

Fair value of a portion of our single-family nonperforming loans is measured using the value of the underlying collateral. These valuations leverage our proprietary distressed home price model. The model assigns a value using comparable transaction data. In determining what comparables to use in the calculations, the model measures three key characteristics relative to the target property: (1) distance from target property, (2) time of the transaction and (3) comparability of the nondistressed value. A portion of the nonperforming loans that are impaired is measured at fair value in our condensed consolidated balance sheets on a nonrecurring basis. These loans are classified within Level 3 of the valuation hierarchy because significant inputs are unobservable.

Fair value of multifamily nonperforming loans is determined by external third-party valuations when available. If third-party valuations are unavailable, we determine the value of the collateral based on a derived property value estimation method using current net operating income of the property and capitalization rates.

Derivatives Assets and Liabilities (collectively derivatives) Derivatives are recorded in our condensed consolidated balance sheets at fair value on a recurring basis. The valuation process for the majority of our risk management derivatives uses observable market data provided by third-party sources, resulting in Level 2 classification. Interest rate swaps are valued by referencing yield curves derived from observable interest rates and spreads to project and discount swap cash flows to present value. Option-based derivatives use a model that projects the probability of various levels of interest rates by referencing swaption and caplet volatilities provided by market makers/dealers. The projected cash flows of the underlying swaps of these option-based derivatives are discounted to present value using

yield curves derived from observable interest rates and spreads. Exchange-traded futures are valued using market quoted prices, resulting in Level 1 classification. Certain highly complex structured derivatives use only a single external source of price information due to lack of transparency in the market and may be modeled using observable interest rates and volatility levels as

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

well as significant assumptions, resulting in Level 3 classification. Mortgage commitment derivatives use observable market data, quotes and actual transaction price levels adjusted for market movement, and are typically classified as Level 2. Adjustments for market movement based on internal model results that cannot be corroborated by observable market data are classified as Level 3.

Guaranty Assets and Buy-ups Guaranty assets related to our portfolio securitizations are recorded in our condensed consolidated balance sheets at fair value on a recurring basis and are classified within Level 3 of the valuation hierarchy. Guaranty assets in lender swap transactions are recorded in our condensed consolidated balance sheets at the lower of cost or fair value. These assets, which are measured at fair value on a nonrecurring basis, are classified within Level 3 of the fair value hierarchy.

We estimate the fair value of guaranty assets based on the present value of expected future cash flows of the underlying mortgage assets using management s best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. These cash flows are projected using proprietary prepayment, interest rate and credit risk models. Because guaranty assets are like an interest-only income stream, the projected cash flows from our guaranty assets are discounted using one-month LIBOR plus the option-adjusted spread (OAS) for interest-only trust securities. The interest-only OAS is calibrated using prices of a representative sample of interest-only trust securities. We believe the remitted fee income is less liquid than interest-only trust securities and more like an excess servicing strip. We take a further haircut of the present value for liquidity considerations. This discount is based on market quotes from dealers.

The fair value of the guaranty assets include the fair value of any associated buy-ups, which is estimated in the same manner as guaranty assets but is recorded separately as a component of Other assets in our condensed consolidated balance sheets. While the fair value of the guaranty assets reflect all guaranty arrangements, the carrying value primarily reflects only those arrangements entered into subsequent to our adoption of the accounting standard on guarantor s accounting and disclosure requirements for guarantees.

Debt The majority of debt of Fannie Mae is recorded in our condensed consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments. We elected the fair value option for certain structured debt instruments, which are recorded in our condensed consolidated balance sheets at fair value on a recurring basis.

We use third-party pricing services that reference observable market data such as interest rates and spreads to measure the fair value of debt, and thus classify that debt as Level 2. When third-party pricing is not available, we use a discounted cash flow approach based on a yield curve derived from market prices observed for Fannie Mae Benchmark Notes and adjusted to reflect fair values at the offer side of the market.

For structured debt instruments that are not valued by third-party pricing services, cash flows are evaluated taking into consideration any structured derivatives through which we have swapped out of the structured features of the notes. The resulting cash flows are discounted to present value using a yield curve derived from market prices observed for Fannie Mae Benchmark Notes and adjusted to reflect fair values at the offer side of the market. Market swaption volatilities are also referenced for the valuation of callable structured debt instruments. Given that the derivatives considered in the valuations of these structured debt instruments are classified as Level 3, the valuations of the structured debt instruments result in a Level 3 classification.

Consolidated MBS debt is traded in the market as MBS assets. Accordingly, we estimate the fair value of our consolidated MBS debt using quoted market prices in active markets for similar liabilities when traded as assets. The valuation methodology and inputs used in estimating the fair value of MBS assets are described under Cash Equivalents, Trading Securities and Available-for-Sale Securities. Certain consolidated MBS debt

135

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

with embedded derivatives is recorded in our condensed consolidated balance sheets at fair value on a recurring basis.

Nonrecurring Changes in Fair Value

The following tables display assets and liabilities measured in our condensed consolidated balance sheets at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate for impairment), and the gains or losses recognized for these assets and liabilities for the three months ended March 31, 2011 and 2010 as a result of fair value measurements.

	Fair Value Measurements For the Three Months Ended March 31, 2011				For the Three Months Ended March 31, 2011
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value	Total Losses
	(Dollars in millions)				
Assets:					
Mortgage loans held for sale, at lower of cost or fair value	$	$ 89	$ 131	$ 220	$ (5)
Single-family mortgage loans held for investment, at amortized cost:					
Of Fannie Mae			27,265	27,265(3)	(1,014)
Of consolidated trusts			633	633(3)	(80)
Multifamily mortgage loans held for investment, at amortized cost:					
Of Fannie Mae			1,028	1,028(3)	(80)
Acquired property, net:					
Single-family			12,114	12,114(4)	(811)
Multifamily			93	93(4)	(16)
Other assets			1,402	1,402	(30)

Total assets at fair value	$	$ 89	$ 42,666	$ 42,755	$ (2,036)

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Fair Value Measurements For the Three Months Ended March 31, 2010				For the Three Months Ended March 31, 2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value	Total Gains (Losses)
	(Dollars in millions)				
Assets:					
Mortgage loans held for sale, at lower of cost or fair value	$	$ 6,690	$ 473	$ 7,163(1)(2)	$ (69)(2)
Single-family mortgage loans held for investment, at amortized cost:					
Of Fannie Mae			3,621	3,621(3)	109
Multifamily mortgage loans held for investment, at amortized cost:					
Of Fannie Mae			1,089	1,089(3)	(91)
Acquired property, net:					
Single-family			5,827	5,827(4)	(332)
Multifamily			73	73(4)	(15)
Other Assets:					
Guaranty assets			18	18	(3)
Partnership investments			69	69	(63)
Total assets at fair value	$	$ 6,690	$ 11,170	$ 17,860	$ (464)

(1) Includes $7.1 billion of mortgage loans held for sale that were sold, retained as a mortgage-related security or redesignated to mortgage loans held for investment as of March 31, 2010.

(2) Includes $7.1 billion of estimated fair value and $68 million in losses due to the adoption of the new accounting standards.

(3) Includes $1.3 billion and $161 million of mortgage loans held for investment that were liquidated or transferred to foreclosed properties as of March 31, 2011 and 2010, respectively.

(4) Includes $4.1 billion and $1.6 billion of acquired properties that were sold or transferred as of March 31, 2011 and 2010, respectively.

The following is a description of the fair valuation techniques we use for assets and liabilities measured at fair value on a nonrecurring basis under the accounting standard for fair value measurements as well as our basis for classifying these assets and liabilities as Level 1, Level 2 or Level 3. We also use these valuation techniques to estimate the fair value of financial instruments not carried at fair value but disclosed as part of the fair value of financial instruments.

Mortgage Loans Held for Sale HFS HFS loans are reported at the lower of cost or fair value in our condensed consolidated balance sheets. The valuation methodology and inputs used in estimating the fair value of HFS loans are described under Mortgage Loans Held for Investment and these loans are classified as Level 2 to the extent that significant inputs are observable. To the extent that significant inputs are unobservable or determined by extrapolation of observable points, the loans are classified within Level 3.

Acquired Property, Net and Other Assets Acquired property, net mainly represents foreclosed property received in full satisfaction of a loan net of a valuation allowance. Acquired property is initially recorded in

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

our condensed consolidated balance sheets at its fair value less its estimated cost to sell. The initial fair value of foreclosed properties is determined using a hierarchy based on the reliability of available information. The fair value estimate is based on the best information available at the time of valuation. The hierarchy includes offers accepted, third-party interior appraisals, independent broker opinions, proprietary home price model values and exterior broker price opinions. Estimated cost to sell is based upon historical sales cost at a geographic level.

Subsequent to initial measurement, the foreclosed properties that we intend to sell are reported at the lower of the carrying amount or fair value less estimated costs to sell. Foreclosed properties classified as held for use, included in other assets, are depreciated and are impaired when circumstances indicate that the carrying amount of the property is no longer recoverable. Acquired property held for use is included in other assets in our condensed consolidated balance sheets. The fair value of our single-family foreclosed properties on an ongoing basis is determined using the same information hierarchy used at the point of initial fair value. The fair value of our multifamily properties is derived using third-party valuations. When third-party valuations are not available, we estimate the fair value using current net operating income of the property and capitalization rates.

Acquired property is classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of our financial instruments as of March 31, 2011 and December 31, 2010. The fair value of financial instruments we disclose, includes commitments to purchase multifamily and single-family mortgage loans, which are off-balance sheet financial instruments that we do not record in our condensed consolidated balance sheets. The fair values of these commitments are included as Mortgage loans held for investment, net of allowance for loan losses. The disclosure excludes certain financial instruments, such as plan obligations for pension and postretirement health care benefits, employee stock option and stock purchase plans, and also excludes all non-financial

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

instruments. As a result, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

	As of			
	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in millions)			
Financial assets:				
Cash and cash equivalents[1]	$ 56,561	$ 56,561	$ 80,975	$ 80,975
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,250	26,250	11,751	11,751
Trading securities	57,035	57,035	56,856	56,856
Available-for-sale securities	89,613	89,613	94,392	94,392
Mortgage loans held for sale	1,414	1,458	915	915
Mortgage loans held for investment, net of allowance for loan losses:				
Of Fannie Mae	348,644	313,172	358,698	319,367
Of consolidated trusts	2,599,999	2,618,736	2,564,107	2,610,145
Mortgage loans held for investment	2,948,643	2,931,908	2,922,805	2,929,512
Advances to lenders	3,091	2,940	7,215	6,990
Derivative assets at fair value	279	279	1,137	1,137
Guaranty assets and buy-ups	459	899	458	814
Total financial assets	$ 3,183,345	$ 3,166,943	$ 3,176,504	$ 3,183,342
Financial liabilities:				
Federal funds purchased and securities sold under agreements to repurchase	$ 25	$ 25	$ 52	$ 51
Short-term debt:				
Of Fannie Mae	147,092	147,133	151,884	151,974
Of consolidated trusts	5,156	5,156	5,359	5,359
Long-term debt:				
Of Fannie Mae	614,095	633,150	628,160	649,684
Of consolidated trusts	2,442,433	2,530,474	2,411,597	2,514,929
Derivative liabilities at fair value	941	941	1,715	1,715
Guaranty obligations	760	3,427	769	3,854
Total financial liabilities	$ 3,210,502	$ 3,320,306	$ 3,199,536	$ 3,327,566

(1) Includes restricted cash of $36.7 billion and $63.7 billion as of March 31, 2011 and December 31, 2010, respectively.

The following are valuation techniques for items not subject to the fair value hierarchy either because they are not measured at fair value other than for the purpose of the above table or because they are only measured at fair value at inception.

Financial Instruments for which fair value approximates carrying value We hold certain financial instruments that are not carried at fair value but for which the carrying value approximates fair value due to the short-term nature and negligible credit risk inherent in them. These financial instruments include cash and cash equivalents, federal funds and securities sold/purchased under agreements to repurchase/resell (exclusive of dollar roll repurchase transactions) and the majority of advances to lenders.

Advances to Lenders The carrying value for the majority of our advances to lenders approximates the fair value due to the short-term nature of the specific instruments. Other instruments include loans for which the

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

carrying value does not approximate fair value. These loans are valued using collateral values of similar loans as a proxy.

Guaranty Obligations The fair value of all guaranty obligations (GO), measured subsequent to their initial recognition, is our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm s-length transaction at the measurement date. We estimate the fair value of the GO using our internal GO valuation models, which calculate the present value of expected cash flows based on management s best estimate of certain key assumptions such as current mark-to-market LTV ratios, future house prices, default rates, severity rates and required rate of return. We further adjust the model values based on our current market pricing when such transactions reflect credit characteristics that are similar to our outstanding GO. While the fair value of the GO reflects all guaranty arrangements, the carrying value primarily reflects only those arrangements entered into subsequent to our adoption of the accounting standard on guarantor s accounting and disclosure requirements for guarantees.

Fair Value Option

We elected the fair value option for certain consolidated loans and debt instruments recorded in our condensed consolidated balance sheets as a result of consolidating VIEs. These instruments contain embedded derivatives that would otherwise require bifurcation. Under the fair value option, we elected to carry these instruments at fair value instead of bifurcating the embedded derivative from the respective loan or debt instrument.

We elected the fair value option for all long-term structured debt instruments that are issued in response to specific investor demand and have interest rates that are based on a calculated index or formula and are economically hedged with derivatives at the time of issuance. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from the accounting asymmetry created by recording these structured debt instruments at cost while recording the related derivatives at fair value.

We elected the fair value option for the financial assets and liabilities of the consolidated senior-subordinate trust structures. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from different accounting treatment between loans at cost and debt at cost.

Interest income for the mortgage loans is recorded in Mortgage loans interest income and interest expense for the debt instruments is recorded in Long-term debt interest expense in our condensed consolidated statements of operations and comprehensive loss.

The following table displays the fair value and unpaid principal balance of the financial instruments for which we have made fair value elections as of March 31, 2011 and December 31, 2010.

	As of					
	March 31, 2011			December 31, 2010		
	Loans of	Long-Term	Long-Term Debt of	Loans of	Long-Term	Long-Term Debt of

	Consolidated Trusts[1]	Debt of Fannie Mae	Consolidated Trusts[2]	Consolidated Trusts[1]	Debt of Fannie Mae	Consolidated Trusts[2]
	(Dollars in millions)					
Fair value	$ 2,969	$ 884	$ 2,193	$ 2,962	$ 893	$ 2,271
Unpaid principal balance	3,472	809	2,506	3,456	829	2,572

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

(1) Includes nonaccrual loans with a fair value of $242 million and $219 million as of March 31, 2011 and December 31, 2010, respectively. The difference between unpaid principal balance and the fair value of these nonaccrual loans as of March 31, 2011 is $216 million. Includes loans that are 90 days past due with a fair value of $365 million and $369 million as of March 31, 2011 and December 31, 2010, respectively. The difference between unpaid principal balance and the fair value of these 90 or more days past due loans as of March 31, 2011 is $253 million.

(2) Includes interest-only debt instruments with no unpaid principal balance and a fair value of $140 million and $151 million as of March 31, 2011 and December 31, 2010, respectively.

Changes in Fair Value under the Fair Value Option Election

The following table displays fair value gains and losses, net, including changes attributable to instrument-specific credit risk, for loans and debt for which the fair value election was made. Amounts are recorded as a component of Fair value gains (losses), net in our condensed consolidated statements of operations and comprehensive loss for the periods ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,			
	2011			2010
	Loans	Long-Term Debt	Total Gains (Losses)	Long-Term Debt
	(Dollars in millions)			
Changes in instrument-specific credit risk	$ (217)	$ (4)	$ (221)	$ 3
Other changes in fair value	65	33	98	(27)
Fair value gains (losses), net	$ (152)	$ 29	$ (123)	$ (24)

In determining the changes in the instrument-specific credit risk for loans, the changes in the associated credit-related components of these loans, primarily the guaranty obligation, were taken into consideration with the overall change in the fair value of the loans for which we elected the fair value option for financial instruments. In determining the changes in the instrument-specific credit risk for debt, the changes in Fannie Mae debt spreads to LIBOR that occurred during the period were taken into consideration with the overall change in the fair value of the debt for which we elected the fair value option for financial instruments. Specifically, cash flows are evaluated taking into consideration any derivatives through which Fannie Mae has swapped out of the structured features of the notes and thus created a floating-rate LIBOR-based debt instrument. The change in value of these LIBOR-based cash flows based on the Fannie Mae yield curve at the beginning and end of the period represents the instrument-specific risk.

14. Commitments and Contingencies

We are party to various types of legal actions and proceedings, including actions brought on behalf of various classes of claimants. We also are subject to regulatory examinations, inquiries and investigations and other information gathering requests. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. The following describes our material legal proceedings, investigations and other matters.

For certain legal actions and proceedings we have established a reserve for probable losses where we can reasonably estimate such losses or ranges of losses. Based on our current knowledge and after consultation with counsel, we do not believe that such losses or ranges of losses will have a material adverse effect on our financial condition. We note, however, that in light of the uncertainties involved in such actions and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves we have currently accrued. For certain other legal actions or proceedings, we cannot reasonably estimate such losses or ranges of losses, particularly for proceedings that are in their early stages of

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

development, where plaintiffs seek substantial or indeterminate damages, or where there may be novel or unsettled legal questions relevant to the proceedings. For these matters, we have not established a reserve. Given the uncertainties involved in any action or proceeding, regardless of whether we have established a reserve, the ultimate resolution of certain of these matters may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our net income or loss for that period. Based on our current knowledge with respect to the lawsuits described below, we believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously regardless of whether or not we have recorded a loss reserve.

In addition to the matters specifically described below, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. We have advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to indemnification agreements.

In re Fannie Mae Securities Litigation

Fannie Mae is a defendant in a consolidated class action lawsuit initially filed in 2004 and currently pending in the U.S. District Court for the District of Columbia. In the consolidated complaint filed on March 4, 2005, lead plaintiffs Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio allege that we and certain former officers, as well as our former outside auditor, made materially false and misleading statements in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and SEC Rule 10b-5 promulgated thereunder. Plaintiffs contend that Fannie Mae s accounting statements were inconsistent with GAAP requirements relating to hedge accounting and the amortization of premiums and discounts, and seek unspecified compensatory damages, attorneys fees, and other fees and costs. On January 7, 2008, the court defined the class as all purchasers of Fannie Mae common stock and call options and all sellers of publicly traded Fannie Mae put options during the period from April 17, 2001 through December 22, 2004. On October 17, 2008, FHFA, as conservator for Fannie Mae, intervened in this case.

2008 Class Action Lawsuits

Fannie Mae is a defendant in two consolidated class actions filed in 2008 and currently pending in the U.S. District Court for the Southern District of New York *In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*. On February 11, 2009, the Judicial Panel on Multidistrict Litigation ordered that the cases be coordinated for pretrial proceedings. On October 13, 2009, the Court entered an order allowing FHFA to intervene in *In re Fannie Mae 2008 Securities Litigation*.

In re Fannie Mae 2008 Securities Litigation

In a consolidated complaint filed on June 22, 2009, lead plaintiffs Massachusetts Pension Reserves Investment Management Board and Boston Retirement Board (for common shareholders) and Tennessee Consolidated Retirement System (for preferred shareholders) allege that we, certain of our former officers, and certain of our underwriters violated Sections 12(a)(2) and 15 of the Securities Act of 1933. Lead plaintiffs also allege that we, certain of our former officers, and our outside auditor, violated Sections 10(b) (and Rule 10b-5 promulgated

thereunder) and 20(a) of the Securities Exchange Act of 1934. Lead plaintiffs purport to represent a class of persons who, between November 8, 2006 and September 5, 2008, inclusive, purchased or acquired (a) Fannie Mae common stock and options or (b) Fannie Mae preferred stock. Lead plaintiffs seek various forms of relief, including rescission, damages, interest, costs, attorneys and experts fees, and other equitable and injunctive relief.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

On November 24, 2009, the Court granted the defendants motion to dismiss the Securities Act claims as to all defendants. On September 30, 2010, the Court granted in part and denied in part the defendants motions to dismiss the Securities Exchange Act claims. As a result of the partial denial, some of the Securities Exchange Act claims remain pending against us and certain of our former officers. On October 14, 2010, we and certain other defendants filed motions for reconsideration of those portions of the Court s September 30, 2010 order denying in part the defendants motions to dismiss. Fannie Mae filed its answer to the consolidated complaint on December 31, 2010. Defendants motions for reconsideration were denied on April 11, 2011.

In re 2008 Fannie Mae ERISA Litigation

In a consolidated complaint filed on September 11, 2009, plaintiffs allege that certain of our current and former officers and directors, including former members of Fannie Mae s Benefit Plans Committee and the Compensation Committee of Fannie Mae s Board of Directors, as fiduciaries of Fannie Mae s Employee Stock Ownership Plan (ESOP), breached their duties to ESOP participants and beneficiaries by investing ESOP funds in Fannie Mae common stock when it was no longer prudent to continue to do so. Plaintiffs purport to represent a class of participants and beneficiaries of the ESOP whose accounts invested in Fannie Mae common stock beginning April 17, 2007. The plaintiffs seek unspecified damages, attorneys fees and other fees and costs and injunctive and other equitable relief. On November 2, 2009, defendants filed motions to dismiss these claims, which are now fully briefed and remain pending.

Comprehensive Investment Services v. Mudd, et al.

On May 13, 2009, Comprehensive Investment Services, Inc. filed an individual securities action against certain of our former officers and directors, and certain of our underwriters in the Southern District of Texas. Plaintiff alleges violations of Section 12(a)(2) of the Securities Act of 1933; violation of § 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; violation of § 20(a) of the Securities Exchange Act of 1934; and violations of the Texas Business and Commerce Code, common law fraud, and negligent misrepresentation in connection with Fannie Mae s May 2008 $2.0 billion offering of 8.25% non-cumulative preferred Series T stock. The complaint seeks various forms of relief, including rescission, damages, interest, costs, attorneys and experts fees, and other equitable and injunctive relief. On July 7, 2009, this case was transferred to the Southern District of New York for coordination with *In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*.

Smith v. Fannie Mae, et al.

This action was originally filed on February 25, 2010, by plaintiff Edward Smith against Fannie Mae and certain of its former officers as well as several underwriters and is pending in the Southern District of New York where it is coordinated with *In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*. Plaintiff filed an amended complaint on April 19, 2011, which alleges, in connection with Fannie Mae s December 2007 $7.0 billion offering of 7.75% fixed-to-floating rate non-cumulative preferred Series S stock, violations of § 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; violations of § 20(a) of the Securities Exchange Act of 1934; common law fraud and negligence claims; and California state law claims for misrepresentation. Plaintiff seeks relief in the form of rescission, actual damages (including interest), and exemplary and punitive damages.

Table of Contents

FANNIE MAE
(In conservatorship)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Investigation by the Securities and Exchange Commission

On September 26, 2008, we received notice of an ongoing investigation into Fannie Mae by the SEC regarding certain accounting and disclosure matters. On January 8, 2009, the SEC issued a formal order of investigation. We are cooperating with this investigation.

Investigation by the Department of Justice

On September 26, 2008, we received notice of an ongoing federal investigation by the U.S. Attorney for the Southern District of New York into certain accounting, disclosure and corporate governance matters. In connection with that investigation, Fannie Mae received a Grand Jury subpoena for documents. That subpoena was subsequently withdrawn. However, we were informed that the Department of Justice was continuing an investigation and on March 15, 2010, we received another Grand Jury subpoena for documents. We are cooperating with this investigation.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information about market risk is set forth in MD&A Risk Management Market Risk Management, Including Interest Rate Risk Management.

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC). Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Deputy Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Deputy Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of March 31, 2011, the end of the period covered by this report. As a result of management s evaluation, our Chief Executive Officer and Deputy Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of March 31, 2011 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of March 31, 2011 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of March 31, 2011 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under Description of Material Weakness. Based on discussions with FHFA and the structural nature of the weakness in our disclosure controls and procedures, it is likely that we will not remediate this material weakness while we are under conservatorship.

Description of Material Weakness

The Public Company Accounting Oversight Board s Auditing Standard No. 5 defines a material weakness as a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable

possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

Table of Contents

Management has determined that we continued to have the following material weakness as of March 31, 2011 and as of the date of filing this report:

Disclosure Controls and Procedures. We have been under the conservatorship of FHFA since September 6, 2008. Under the 2008 Reform Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the 2008 Reform Act, which places us under the control of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures. As both our regulator and our conservator under the 2008 Reform Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our condensed consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of March 31, 2011 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, it is likely that we will not remediate this material weakness while we are under conservatorship.

Mitigating Actions Relating to Material Weakness

As described above under Description of Material Weakness, we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

FHFA has established the Office of Conservatorship Operations, which is intended to facilitate operation of the company with the oversight of the conservator.

We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.

FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this quarterly report on Form 10-Q for the quarter ended March 31, 2011 (First Quarter 2011 Form 10-Q), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our First Quarter 2011 Form 10-Q, FHFA provided Fannie Mae management with a written acknowledgement that it had reviewed the First Quarter 2011 Form 10-Q, and it was not aware of any material misstatements or omissions in the First Quarter 2011 Form 10-Q and had no objection to our filing the First Quarter 2011 Form 10-Q.

The Acting Director of FHFA and our Chief Executive Officer have been in frequent communication, typically meeting on at least a bi-weekly basis.

FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, liquidity, external communications and legal matters.

Senior officials within FHFA s Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

Changes in Internal Control over Financial Reporting

Management is required to evaluate, with the participation of our Chief Executive Officer and Deputy Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There have been no changes in our internal control over financial reporting since December 31, 2010 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The information in this item supplements information regarding certain legal proceedings set forth in Legal Proceedings in our 2010 Form 10-K. We also provide information regarding material legal proceedings in Note 14, Commitments and Contingencies, which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record reserves for legal claims when losses associated with the claims become probable and the amounts can reasonably be estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we have not recognized in our condensed consolidated financial statements the potential liability that may result from these matters. We presently cannot determine the ultimate resolution of the matters described or incorporated by reference in this item or in our 2010 Form 10-K. We have recorded a reserve for legal claims related to those matters for which we were able to determine a loss was both probable and reasonably estimable. If certain of these matters are determined against us, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

Item 1A. Risk Factors

In addition to the information in this report, you should carefully consider the risks relating to our business that we identify in Risk Factors in our 2010 Form 10-K. This section supplements and updates that discussion and, for a complete understanding of the subject, you should read both together. Please also refer to MD&A Risk Management in this report and in our 2010 Form 10-K for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below, we face risks and uncertainties not currently known to us or that we currently believe are immaterial. The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth and could cause our actual results to differ materially from our past results or the results contemplated by the forward-looking statements contained in this report.

The future of our company is uncertain.

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.

On February 11, 2011, Treasury and HUD released a report to Congress on ending the conservatorships of the GSEs and reforming America s 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 also addresses three options for a reformed housing finance system. 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

Table of Contents

importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period.

In April 2011, in the House of Representatives, the Subcommittee on Capital Markets and Government Sponsored Enterprises of the Financial Services Committee approved several bills relating to GSE operations. We expect that Congress will continue to hold hearings and consider legislation in 2011 on the future status of Fannie Mae and Freddie Mac, including proposals that would result in a substantial change to our business structure, our operations, or that involve Fannie Mae s liquidation or dissolution. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. See MD&A Legislative and Regulatory Developments GSE Reform for more information about the Treasury report and Congressional proposals regarding reform of the GSEs.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may be insufficient to cover our obligations or aggregate liquidation preference on our preferred stock, or provide any proceeds to common shareholders.

FHFA has an obligation to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Because of the credit-related expenses we expect to incur on our legacy book of business and our dividend obligation to Treasury, we will continue to need funding from Treasury to avoid triggering FHFA s obligation. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, Treasury may not be able to make funds available to us within the required 60 days if providing the funds would cause the government to exceed its authorized debt ceiling. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the former Director of FHFA placed us into conservatorship.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the 2008 Reform Act (together, the GSE Act). Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us.

To the extent we are placed into receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty.

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

Table of Contents

A decrease in the credit ratings on our senior unsecured debt would likely have an adverse effect on our ability to issue debt on reasonable terms and trigger additional collateral requirements.

Our borrowing costs and our access to the debt capital markets depend in large part on the high credit ratings on our senior unsecured debt. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt. While there have been no changes in our credit ratings from December 31, 2010 to May 2, 2011, on April 20, 2011, Standard & Poor s revised its outlook on the debt issues of Fannie Mae to negative from stable. This action followed Standard & Poor s revision to the outlook of the U.S. government s long-term credit rating to negative from stable. Standard & Poor s noted that the ratings on Fannie Mae and other government-related entities are constrained by the long-term sovereign rating on the U.S. government and noted that it will not raise the outlooks or ratings on these entities above the U.S. government as long as the ratings and outlook on the U.S. remain unchanged. Standard & Poor s also stated that if it were to lower its ratings on the U.S. government, it would likely lower the ratings on the debt of Fannie Mae and other government-related entities. A reduction in our credit ratings would likely increase our borrowing costs, limit our access to the capital markets and trigger additional collateral requirements under our derivatives contracts and other borrowing arrangements. It may also reduce our earnings and materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and results of operations. Our credit ratings and ratings outlook are included in MD&A Liquidity and Capital Management Liquidity Management Credit Ratings.

Deficiencies in servicer and law firm foreclosure processes and the resulting foreclosure pause may cause higher credit losses and credit-related expenses.

A number of our single-family mortgage servicers temporarily halted foreclosures in the fall of 2010 in some or all states after discovering deficiencies in their processes and the processes of their lawyers and other service providers relating to the execution of affidavits in connection with the foreclosure process. This foreclosure pause could expand to additional servicers and states, and possibly to all or substantially all of our loans in the foreclosure process. Some servicers have lifted the foreclosure pause in some jurisdictions, while continuing the pause in others.

Although we cannot predict the ultimate impact of this foreclosure pause on our business at this time, we believe the pause has resulted in longer foreclosure timelines and higher credit-related expenses and will likely continue to do so. The foreclosure pause could negatively affect housing market conditions and delay the recovery of the housing market. This foreclosure pause may also negatively affect the value of the private-label securities we hold and result in additional impairments on these securities.

The foreclosure process deficiencies have generated significant concern and are currently being reviewed by various government agencies and the attorneys general of all fifty states. Foreclosure process deficiencies could lead to expensive or time-consuming new regulation, such as new rules applicable to the foreclosure process recently issued by courts in some states. On April 13, 2011, federal banking regulators announced enforcement actions against fourteen mortgage servicers and their parent bank holding companies to address deficiencies and weaknesses identified in the regulators review of the servicers foreclosure processing. The enforcement actions require the servicers to correct deficiencies and make improvements in their servicing and foreclosure practices. The actions also require each servicer to hire an independent firm to conduct a comprehensive review of foreclosure actions pending during 2009 and 2010 to identify and provide remediation to borrowers who suffered financial injury as a result of wrongful foreclosures or other foreclosure process deficiencies.

The failure of our servicers or a law firm to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process poses operational, reputational and legal risks for us. Depending on the duration and extent of the foreclosure pause and the foreclosure process deficiencies, and the responses to them, these

matters could have a material adverse effect on our business.

Table of Contents

Challenges to the MERS® System could pose counterparty, operational, reputational and legal risks for us.

MERSCORP, Inc. is a privately held company that maintains an electronic registry (the MERS System) that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. (MERS), a wholly owned subsidiary of MERSCORP, Inc., can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae seller/servicers may choose to use MERS as a nominee; however, we have prohibited servicers from initiating foreclosures on Fannie Mae loans in MERS s name. Approximately half of the loans we own or guarantee are registered in MERS s name and the related servicing rights are tracked in the MERS System. The MERS System is widely used by participants in the mortgage finance industry. Along with a number of other organizations in the mortgage finance industry, we are a shareholder of MERSCORP, Inc.

Several legal challenges have been made disputing MERS s legal standing to initiate foreclosures and/or act as nominee in local land records. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS s ability to serve as the mortgagee of record in some jurisdictions. In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. As a result, investigations by governmental authorities and others into the servicer foreclosure process deficiencies discussed above may impact MERS. On April 13, 2011, federal banking regulators and FHFA announced that they were taking enforcement action against MERS to address significant weaknesses in, among other things, oversight, management supervision and corporate governance at MERS that were uncovered as part of the regulators review of mortgage servicers foreclosure processing. Failures by MERS to apply prudent and effective process controls and to comply with legal and other requirements could pose counterparty, operational, reputational and legal risks for us. If investigations or new regulation or legislation restricts servicers use of MERS, our counterparties may be required to record all mortgage transfers in land records, incurring additional costs and time in the recordation process. At this time, we cannot predict the ultimate outcome of these legal challenges to MERS or the impact on our business, results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury.

We previously provided stock compensation to employees and members of the Board of Directors under the Fannie Mae Stock Compensation Plan of 1993 and the Fannie Mae Stock Compensation Plan of 2003 (the Plans). During the quarter ended March 31, 2011, 73,094 restricted stock units vested, as a result of which 48,419 shares of common stock were issued, and 24,675 shares of common stock that otherwise would have been issued were withheld by us in lieu of requiring the recipients to pay us the withholding taxes due upon vesting. All of these restricted stock units were granted prior to our entering into conservatorship. Restricted stock units granted under the Plans typically vest in equal annual installments over three or four years beginning on the first anniversary of the date of grant. Each restricted stock unit represents the right to receive a share of common stock at the time of vesting. As a result, restricted stock units are generally similar to restricted stock, except that restricted stock units do not confer voting rights on their holders. All restricted stock units were granted to persons who were employees or members of the Board of Directors of Fannie Mae.

During the quarter ended March 31, 2011, 154 shares of common stock were issued upon conversion of 100 shares of 8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, at the option of

the holders pursuant to the terms of the preferred stock. All series of preferred stock, other than the senior preferred stock, were issued prior to September 7, 2008.

The securities we issue are exempted securities under laws administered by the SEC to the same extent as securities that are obligations of, or are guaranteed as to principal and interest by, the United States, except that, under the GSE Act, our equity securities are not treated as exempted securities for purposes of Section 12, 13, 14 or 16 of the Exchange Act. As a result, our securities offerings are exempt from SEC registration requirements and we do not file registration statements or prospectuses with the SEC under the Securities Act of 1933 with respect to our securities offerings.

Information about Certain Securities Issuances by Fannie Mae

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

To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our Web site or in a current report on Form 8-K, in accordance with a no-action letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our Web site, the document will be posted on our Web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

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

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

We are providing our Web site address solely for your information. Information appearing on our Web site is not incorporated into this report.

Our Purchases of Equity Securities

The following table shows shares of our common stock we repurchased during the first quarter of 2011.

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program[2]	Maximum Number of Shares that May Yet be Purchased Under the Program[2]

	(Shares in thousands)		
2011			
January 1-31	294	$	0.52
February 1-28	23		0.59
March 1-31	1		0.55
Total	318		

152

(1) Consists of shares of common stock reacquired from employees to pay an aggregate of $167,443 in withholding taxes due upon the vesting of previously issued restricted stock. Does not include 100 shares of 8.75% Non-Cumulative Mandatory Convertible Series 2008-1 Preferred Stock received from holders upon conversion of those shares into 154 shares of common stock.

(2) We no longer have any publicly announced share repurchase programs under which we could purchase our common stock.

Dividend Restrictions

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock.

Restrictions under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities without the prior written consent of Treasury.

Statutory Restrictions. Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

Restrictions Relating to Qualifying Subordinated Debt. During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock.

Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and reserved]

Item 5. Other Information

None.

Item 6. Exhibits

An index to exhibits has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal National Mortgage Association

By: /s/ Michael J. Williams

Michael J. Williams
President and Chief Executive Officer

Date: May 6, 2011

By: /s/ David C. Hisey

David C. Hisey
Executive Vice President and
Deputy Chief Financial Officer

Date: May 6, 2011

154

INDEX TO EXHIBITS

Item	Description
3.1	Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.) as amended through July 30, 2008 (Incorporated by reference to Exhibit 3.1 to Fannie Mae s Annual Report on Form 10-K, filed February 24, 2011.)
3.2	Fannie Mae Bylaws, as amended through January 30, 2009 (Incorporated by reference to Exhibit 3.2 to Fannie Mae s Annual Report on Form 10-K for the year ended December 31, 2008, filed February 26, 2009.)
4.1	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series D (Incorporated by reference to Exhibit 4.1 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.2	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series E (Incorporated by reference to Exhibit 4.2 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.3	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series F (Incorporated by reference to Exhibit 4.3 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.4	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series G (Incorporated by reference to Exhibit 4.4 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.5	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series H (Incorporated by reference to Exhibit 4.5 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.6	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series I (Incorporated by reference to Exhibit 4.6 to Fannie Mae s registration statement on Form 10, filed March 31, 2003.)
4.7	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series L (Incorporated by reference to Exhibit 4.7 to Fannie Mae s Quarterly Report on Form 10-Q, filed August 8, 2008.)
4.8	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series M (Incorporated by reference to Exhibit 4.8 to Fannie Mae s Quarterly Report on Form 10-Q, filed August 8, 2008.)
4.9	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series N (Incorporated by reference to Exhibit 4.9 to Fannie Mae s Quarterly Report on Form 10-Q, filed August 8, 2008.)
4.10	Certificate of Designation of Terms of Fannie Mae Non-Cumulative Convertible Preferred Stock, Series 2004-1 (Incorporated by reference to Exhibit 4.10 to Fannie Mae s Annual Report on Form 10-K for the year ended December 31, 2009, filed February 26, 2010.)
4.11	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series O (Incorporated by reference to Exhibit 4.11 to Fannie Mae s Annual Report on Form 10-K for the year ended December 31, 2009, filed February 26, 2010.)
4.12	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series P (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed September 28, 2007.)
4.13	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series Q (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed October 5, 2007.)
4.14	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series R (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed November 21, 2007.)
4.15	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series S (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed December 11, 2007.)
4.16	Certificate of Designation of Terms of Fannie Mae Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1 (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed May 14, 2008.)
4.17	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series T (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed May 19, 2008.)

Table of Contents

Item	Description
4.18	Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 (Incorporated by reference to Exhibit 4.2 to Fannie Mae s Current Report on Form 8-K, filed September 11, 2008.)
4.19	Warrant to Purchase Common Stock, dated September 7, 2008 (Incorporated by reference to Exhibit 4.3 to Fannie Mae s Current Report on Form 8-K, filed September 11, 2008.)
4.20	Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of September 26, 2008, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed October 2, 2008.)
4.21	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.21 to Fannie Mae s Quarterly Report on Form 10-Q, filed May 8, 2009.)
4.22	Second Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of December 24, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae s Current Report on Form 8-K, filed December 30, 2009.)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Deputy Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Deputy Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101. INS	XBRL Instance Document*
101. SCH	XBRL Taxonomy Extension Schema*
101. CAL	XBRL Taxonomy Extension Calculation*
101. LAB	XBRL Taxonomy Extension Labels*
101. PRE	XBRL Taxonomy Extension Presentation*
101. DEF	XBRL Taxonomy Extension Definition*

* The financial information contained in these XBRL documents is unaudited. The information in these exhibits shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of Section 18, nor shall they be deemed incorporated by reference into any disclosure document relating to Fannie Mae, except to the extent, if any, expressly set forth by specific reference in such filing.

Table of Contents

FR006