Fannie Mae

How it Does Business: A Description in its Own Words

Consisting primarily of extracts from Fannie Mae's Form 10-K filed February, 2010 with the S.E.C.

Full copies of Fannie Mae's annual S.E.C. filings can be found at:
http://phx.corporate-ir.net/phoenix.zhtml?c=108360&p=irol-secAnnual&control_SelectGroup=Annual%20Filings

Page numbers in this document do not necessary match the page numbers in the Form 10-K as filed with the S.E.C.

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For:

MAX GARDNER'S
BANKRUPTCY BOOT CAMPS
Lizmere South Mountain Farms Casar, North Carolina

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[Fannie Mae is organized in three business segments:
1. Single-Family Credit Guaranty;
2. Housing and Community Development (Multifamily mortgage loans); and
3. Capital Markets.

Securitization activities and servicing activities are conducted within each of the three business segments. The three segments and the activities within each are described below.
Following the business segment discussion is a description of the current governance of Fannie Mae under the conservatorship of the U.S. government.]

Single-Family Credit Guaranty Business

Our Single-Family Credit Guaranty, or Single-Family, business works with our lender customers to securitize single-family mortgage loans into Fannie Mae MBS and to facilitate the purchase of single-family mortgage loans for our mortgage portfolio. Single-family mortgage loans relate to properties with four or fewer residential units. Revenues in the segment are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS and on the single-family mortgage loans held in our portfolio.

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The aggregate amount of single-family guaranty fees we receive in any period depends on the amount of Fannie Mae MBS outstanding during that period and the applicable guaranty fee rates. The amount of Fannie Mae MBS outstanding at any time is primarily determined by the rate at which we issue new Fannie Mae MBS and by the repayment rate for the loans underlying our outstanding Fannie Mae MBS. Other factors affecting the amount of Fannie Mae MBS outstanding are the extent to which we purchase loans from our MBS trusts because of borrower defaults (with the amount of these purchases affected by rates of borrower defaults on the loans and the extent of loan modification programs in which we engage) and the extent to which servicers repurchase loans from us at our request because there was a breach in the representations and warranties provided upon delivery of the loans.

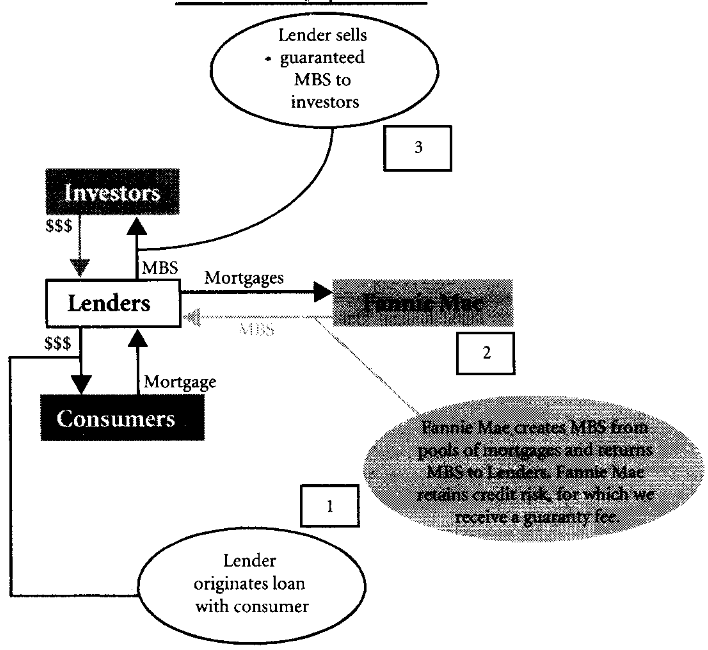
Mortgage Securitizations

Our most common type of securitization transaction is referred to as a "lender swap transaction." Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these loans. After receiving the loans in a lender swap transaction, we place them in a trust that is established for the sole purpose of holding the loans separate and apart from our assets. We serve as trustee for the trust. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as the fee for providing our guaranty. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans. For more information on our MBS trusts, see "Part II—Item 7—MD&A—Off-Balance Sheet Arrangements and Variable Interest Entities."

We issue both single-class and multi-class Fannie Mae MBS. Single-class Fannie Mae MBS refers to Fannie Mae MBS where the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issuance. Multi-class Fannie Mae MBS refers to Fannie Mae MBS, including REMICs, where the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents a beneficial ownership interest in a separate portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. As a result, each of the classes in a multi-class Fannie Mae MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. We also issue structured Fannie Mae MBS, which are multi-class Fannie Mae MBS or single-class Fannie Mae MBS that are resecuritizations of other single-class Fannie Mae MBS.

The following diagram illustrates the basic structure of how we create a typical MBS in the case where a lender chooses to sell the MBS to a third party.

MBS Guaranty Process



Lenders originate mortgages with consumers. They "swap" the loans for MBS with Fannie Mae assuming the credit risk on the loans and guaranteeing the timely payment of principal and interest on the MBS, for which Fannie Mae receives a guaranty fee. Fannie Mae returns the MBS to the lender, who sells it to investors.

MBS. We typically create MBS in the following manner; First, a Fannie Mae seller transfers a pool or pools of mortgage loans to Fannie Mae. We set aside and place these mortgage loans in a trust that assumes the legal ownership of the mortgage loans. We serve as trustee of the trust. In exchange for the mortgage loans, we issue and deliver to the seller (or its designee) our MBS certificates that are backed by the pool(s) of mortgage loans and represent an equitable ownership interest in each of the mortgage loans in the trust. These MBS carry Fannie Mae's corporate guaranty of timely payment of principal and interest. MBS monthly distributions are made from principal and interest payments from the underlying mortgage loans; however, a portion of the interest cashflow is used to pay the costs of servicing the mortgage loans and providing Fannie Mae's corporate guaranty.

MBS Trusts

Each of our single-family MBS trusts operates in accordance with a trust agreement or an indenture. In most instances, a single-family MBS trust is also governed by an issue supplement documenting the formation of that MBS trust and the issuance of the Fannie Mae MBS by that trust. In December 2008, we established a new single-family master trust agreement that governs our single-family MBS trusts formed on or after January 1, 2009 and amended and restated our previous 2007 master trust agreement in order to provide greater flexibility to help borrowers with loans securitized in our MBS trusts. The trust agreements or the trust indenture, together with the issue supplement and any amendments, are the "trust documents" that govern an individual MBS trust.

In accordance with the terms of our single-family MBS trust documents, we have the option or, in some instances, the obligation, to purchase specified mortgage loans from an MBS trust. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest. We generally purchase from the MBS trust any loan that we intend to modify prior to the time that the modification becomes effective. After we purchase the loan, we generally work with the borrower to modify the loan. Because we have established and are implementing a variety of strategies designed to permit modification of both whole loans that we own and loans in our MBS trusts, we expect that the number of loans we purchase from our MBS trusts will increase significantly. In the current market environment, an increase in the loans we purchase from our MBS

trusts also will increase our losses because we are required by GAAP to record these loans on our balance sheet at their market value, rather than at the loan amount, and recognize a loss for the difference between the loan amount and the market value of the loan.

In deciding whether and when to purchase a loan from an MBS trust, we consider a variety of factors, including our legal ability or obligation to purchase loans under the terms of the trust documents; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; relevant market yields; the administrative costs associated with purchasing and holding the loan; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; general market conditions; our statutory obligations under our Charter Act; and other legal obligations such as those established by consumer finance laws. The weight we give to these factors may change in the future depending on market circumstances and other factors. Refer to "Part II—Item 7—MD&A—Critical Accounting Policies and Estimates—Fair Value of Financial Instruments—Fair Value of Loans Purchased with Evidence of Credit Deterioration" and "Part II—Item 7—MD&A—Consolidated Results of Operations—Credit-Related Expenses—Provision Attributable to SOP 03-3 and HomeSaver Advance Fair Value Losses" for a description of our accounting for delinquent loans purchased from MBS trusts and the effect of these purchases on our 2008 financial results.

Mortgage Acquisitions

We acquire single-family mortgage loans for securitization or for our investment portfolio through either our flow or bulk transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fee prices for a lender's future delivery of individual loans to us over a specified time period. Our bulk business generally consists of transactions in which a defined set of loans are to be delivered to us in bulk, and we have the opportunity to review the loans for eligibility and pricing prior to delivery in accordance with the terms of the applicable contracts. Guaranty fees and other contract terms for our bulk mortgage acquisitions are typically negotiated on an individual transaction basis.

Mortgage Servicing

The servicing of the mortgage loans that are held in our mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Typically, lenders who sell single-family mortgage loans to us service these loans for us. We require lenders to obtain our approval before selling servicing rights and obligations to other servicers.

Our mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, perform default prevention activities, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in the effective implementation of our homeownership assistance initiatives, negotiation of workouts of troubled loans, and loss mitigation activities. If necessary, mortgage servicers inspect and preserve properties and process foreclosures and bankruptcies. Because we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, our ability to actively manage troubled loans that we own or guarantee may be limited. For more information on our homeownership assistance initiatives and a discussion of the risks associated with them, refer to "Item 1A—Risk Factors" and "Part II—Item 7—MD&A—Risk Management—Credit Risk Management—Mortgage Credit Risk Management—Problem Loan Management and Foreclosure Prevention."

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

Refer to "Item 1A—Risk Factors" and "Part II—Item 7—MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for a discussion of the risks associated with a default by a mortgage servicer and how we seek to manage those risks.

Housing and Community Development Business

Our Housing and Community Development, or HCD, business works with our lender customers to securitize multifamily mortgage loans into Fannie Mae MBS and to facilitate the purchase of multifamily mortgage loans for our mortgage portfolio. Multifamily mortgage loans relate to properties with five or more residential units, which may be apartment communities, cooperative properties or manufactured housing communities. Our HCD business also makes federal low-income housing tax credit ("LIHTC") partnership, debt and equity investments to increase the supply of affordable housing. Revenues in the segment are derived from a variety of sources, including the (1) guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio, (2) transaction fees associated with the multifamily business and (3) bond credit enhancement fees. HCD's investments in rental housing projects eligible for LIHTC and other investments generate both tax credits and net operating losses that may reduce our federal income tax liability. Other investments in rental and for-sale housing generate revenue and losses from operations and the eventual sale of the assets. As described in "Part II—Item 7—MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets," we concluded that it is more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of our deferred tax assets. As a result, we are not currently making new LIHTC investments other than pursuant to commitments existing prior to 2008.

Mortgage Securitizations

Our HCD business generally creates multifamily Fannie Mae MBS in the same manner as our Single-Family business creates single-family Fannie Mae MBS. See "Single-Family Credit Guaranty Business—Mortgage Securitizations" for a description of a typical lender swap securitization transaction.

MBS Trusts

Each of our multifamily MBS trusts operates in accordance with a trust agreement or an indenture. In most instances, a multifamily MBS trust is also governed by an issue supplement documenting the formation of that MBS trust and the issuance of the Fannie Mae MBS by that trust. In January 2009, we established a new multifamily master trust agreement that governs our multifamily MBS trusts formed on or after February 1, 2009 and amended and restated our previous 2007 master trust agreement to (i) establish specific criteria for the segregation and maintenance by our loan servicers of collateral reserve accounts, (ii) provide greater flexibility in dealing with defaulted loans held in a MBS trust, and (iii) make changes to our multifamily MBS trusts to conform with our single-family MBS trusts.

In accordance with the terms of our multifamily MBS trust documents, we have the option or, in some instances, the obligation, to purchase specified mortgage loans from an MBS trust. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest. We generally purchase from the MBS trust any loan that we intend to modify prior to the time that the modification becomes effective. We typically exercise our option to purchase a loan from a multifamily MBS trust if the loan is delinquent, in whole or in part, as to four or more consecutive monthly payments. After we purchase the loan, we generally work with the borrower to modify the loan.

Mortgage Acquisitions

Our HCD business acquires multifamily mortgage loans for securitization or for our investment portfolio through either our flow or bulk transaction channels, in substantially the same manner as described under "Single-Family Credit Guaranty Business—Mortgage Acquisitions."

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Mortgage Servicing

As with the servicing of single-family mortgages, described under "Single-Family Credit Guaranty Business—Mortgage Servicing," multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. In contrast to our single-family mortgage servicers, however, many of those lenders have agreed, as part of the multifamily delegated underwriting and servicing relationship we have with these lenders, to accept loss sharing under certain defined circumstances with respect to mortgages that they have sold to us and are servicing. Thus, multifamily loss sharing obligations are an integral part of our selling and servicing relationships with multifamily lenders. Consequently, transfers of multifamily servicing rights are infrequent and are carefully monitored by us to enforce our right to approve all servicing transfers. As a seller-servicer, the lender is also responsible for evaluating the financial condition of property owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

Affordable Housing Investments

Our HCD business helps to expand the supply of affordable housing by investing in rental and for-sale housing projects. Most of these are LIHTC investments. Our HCD business also makes equity investments in rental and for-sale housing, and participates in specialized debt financing. These investments are consistent with our focus on serving communities and improving access to affordable housing. As described in "Part II—Item 7—MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets," we concluded that it is more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of our deferred tax assets. As a result, we are currently recognizing only a small amount of tax benefits associated with tax credits and net operating losses in our financial statements. As a result of our tax position, we did not make any new LIHTC investments in 2008 other than pursuant to commitments existing prior to 2008. As we are limited in our use of the tax benefits related to our LIHTC investments, we will consider selling LIHTC investments, as we did in 2007 and 2008, if we conclude that the economic return from selling these investments is greater than the benefits we would receive from continuing to hold these investments. In addition, we have limited our new equity and specialized debt investments in 2008 as a result of unfavorable real estate market conditions.

For additional information regarding our investments in LIHTC partnerships and their impact on our financial results, refer to "Part II—Item 7—MD&A—Consolidated Results of Operations—Losses from Partnership Investments" and "Part II—Item 7—MD&A—Off-Balance Sheet Arrangements and Variable Interest Entities."

Capital Markets Group

Our Capital Markets group manages our investment activity in mortgage loans, mortgage-related securities and other investments, our debt financing activity, and our liquidity and capital positions. We fund our investments primarily through proceeds we receive from our issuance of debt securities in the domestic and international capital markets.

Our Capital Markets group generates most of its revenue from the difference, or spread, between the interest we earn on our mortgage assets and the interest we pay on the debt we issue to fund these assets. We refer to this spread as our net interest yield. Changes in the fair value of the derivative instruments and trading securities we hold impact the net income or loss reported by the Capital Markets group business segment. The net income or loss reported by the Capital Markets group is also affected by the impairment of available-for-sale securities.

Mortgage Investments

Our mortgage investments include both mortgage-related securities and mortgage loans. We purchase primarily conventional (that is, loans that are not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first lien mortgage loans, or mortgage-related securities backed by these types of loans. In addition, we purchase loans insured by the Federal Housing Administration ("FHA"), loans guaranteed by the Department of Veterans Affairs ("VA"), or loans guaranteed by the Rural Development Housing and Community Facilities

Program of the Department of Agriculture, manufactured housing loans, reverse mortgage loans, multifamily mortgage loans, subordinate lien mortgage loans (for example, loans secured by second liens) and other mortgage-related securities. Most of these loans are prepayable at the option of the borrower. Our investments in mortgage-related securities include structured mortgage-related securities such as REMICs. For information on our mortgage investments, including the composition of our mortgage investment portfolio by product type, refer to "Part II—Item 7—MD&A—Consolidated Balance Sheet Analysis."

Investment Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active investor in mortgage assets and, in particular, supports the liquidity and value of Fannie Mae MBS in a variety of market conditions.

The Capital Markets group's purchases and sales of mortgage assets in any given period generally are determined by the rates of return that we expect to earn on the equity capital underlying our investments. When we expect to earn returns greater than our other uses of capital, we generally will be an active purchaser of mortgage loans and mortgage-related securities. When we believe that few opportunities exist to deploy capital in mortgage investments, we generally will be a less active purchaser, and may be a net seller, of mortgage loans and mortgage-related securities.

Our investment activities during 2008 have been affected by turmoil in the capital markets. They were also affected by our applicable capital requirements and other regulatory constraints, as described below under "Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities—Regulation and Oversight of Our Activities." Since September 2008, our investment activities have been affected by both the conservatorship and the limit on our debt under our agreement with Treasury. Our investment activities will also be affected by the limit on our portfolio as of December 31, 2009 under the senior preferred stock purchase agreement with Treasury, described below under "Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities—Treasury Agreements—Covenants Under Treasury Agreements," which includes a requirement that we reduce our mortgage portfolio by 10% per year beginning in 2010.

Debt Financing Activities

Our Capital Markets group funds its investments primarily through the issuance of debt securities in the domestic and international capital markets. In 2008, our debt financing activities were affected by weakness in the capital markets, regulatory constraints and other factors, including government activities in the financial services sector, as described in "Part II—Item 7—MD&A—Liquidity and Capital Management—Liquidity Management."

Securitization Activities

Our Capital Markets group engages in two principal types of securitization activities:

- creating and issuing Fannie Mae MBS from our mortgage portfolio assets, either for sale into the secondary market or to retain in our portfolio; and
- issuing structured Fannie Mae MBS for customers in exchange for a transaction fee.

Our Capital Markets group creates Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our investment portfolio, referred to as "portfolio securitizations." We currently securitize a majority of the single-family mortgage loans we purchase. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our investment portfolio. In addition, the Capital Markets group issues structured Fannie Mae MBS, which are generally created through swap transactions, typically with our lender customers or securities dealer customers. In these transactions, the customer "swaps" a mortgage asset it owns for a structured Fannie Mae MBS we issue. Our Capital Markets group earns transaction fees for issuing structured Fannie Mae MBS for third parties.

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Customer Services

Our Capital Markets group provides our lender customers and their affiliates with services that include: offering to purchase a wide variety of mortgage assets, including non-standard mortgage loan products; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with the hedging of their mortgage business. These activities provide a significant flow of assets for our mortgage portfolio, help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

CONSERVATORSHIP, TREASURY AGREEMENTS, OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Conservatorship

On September 6, 2008, at the request of the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Director of FHFA, our Board of Directors adopted a resolution consenting to putting the company into conservatorship. After obtaining this consent, the Director of FHFA appointed FHFA as our conservator in accordance with the Federal Housing Finance Regulatory Reform Act ("Regulatory Reform Act") and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the "1992 Act"). The conservatorship is a statutory process designed to preserve and conserve our assets and property, and put the company in a sound and solvent condition. The powers of the conservator under the Regulatory Reform Act are summarized below.

The conservatorship has no specified termination date. There can be no assurance as to when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. In a statement issued on September 7, 2008, the then Secretary of the Treasury stated that there is a consensus that we and Freddie Mac pose a systemic risk and that we could not continue in our then current form. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our business, see "Item 1A—Risk Factors."

The table below presents a summary comparison of various features of our business immediately before we were placed into conservatorship and as of February 26, 2009.

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Topic	Before Conservatorship	As of February 26, 2009
Authority of Board of Directors, management and shareholders	• Board of Directors with right to determine the general policies governing the operations of the corporation and exercise all power and authority of the company, except as vested in shareholders or as the Board chooses to delegate to management • Directors with duties to shareholders • Board of Directors delegated significant authority to management • Shareholders with specified voting rights	• FHFA, as conservator, succeeded to all of the power and authority of the Board of Directors, management and the shareholders • The conservator has delegated authority to a newly constituted Board of Directors. The Board is required to consult with and obtain the consent of the conservator before taking action in specified areas. The conservator may modify or rescind this delegation at any time • Directors do not have any duties to any person or entity except to the conservator. • The conservator has delegated authority to management to conduct day-to-day operations so that the company can continue to operate in the ordinary course of business. The conservator retains overall management authority, including the authority to withdraw its delegations to management at any time

		• Shareholders have no voting rights
Structure of Board of Directors	• 13 directors: 12 independent plus President and Chief Executive Officer; independent, non-executive Chairman of the Board • Seven standing Board committees, including Audit Committee of which four of the five independent members were "audit committee financial experts"	• 10 directors: 9 independent plus President and Chief Executive Officer; independent, non-executive Chairman of the Board. Up to three additional Board members may be added by the Board subject to approval of the conservator • Four standing Board committees, including Audit Committee of which three of the four independent members are "audit committee financial experts"
Capital	• Statutory and regulatory capital requirements • Capital classifications as to adequacy of capital issued by FHFA on quarterly basis	• Capital requirements not binding • Quarterly capital classifications by FHFA suspended
Net Worth(1)	• Receivership mandatory under Regulatory Reform Act if FHFA makes a written determination that we have net worth deficit for 60 days	• Conservator has directed management to focus, to the extent it does not conflict with our mission, on maintaining positive net worth • Receivership mandatory if FHFA makes a written determination that we have net worth deficit for 60 days(2)
Management Strategy	• Maximize shareholder value over the long-term • Fulfill our mission of providing liquidity, stability and affordability to the mortgage market	• Directed to provide liquidity, stability and affordability in the mortgage market and immediately provide additional assistance to this market and the struggling housing market, and to the extent not in conflict with our mission, to maintain positive net worth • No longer managed with a strategy to maximize common shareholder returns • Focus on foreclosure prevention

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(1) Our "net worth" refers to the amount by which our total assets exceed our total liabilities, as reflected on our consolidated balance sheet. "Net worth" is substantially the same as "stockholders' equity;" however, "net worth" also includes the minority interests that third parties own in our consolidated subsidiaries (which was $157 million as of December 31, 2008), which is excluded from stockholders' equity.

(2) If FHFA makes a written determination that we have a net worth deficit, then, if requested by FHFA (or by our Chief Financial Officer if we are not under conservatorship), Treasury is required to provide funds to us pursuant to the senior preferred stock purchase agreement. Treasury's funding commitment under that agreement is expected to enable us to maintain a positive net worth as long as Treasury has not yet invested the full amount provided for in that agreement. The Director of FHFA submitted a request on February 25, 2009 to Treasury for funds to eliminate our net worth deficit as of December 31, 2008. See "Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant" below.

General Powers of the Conservator Under the Regulatory Reform Act

Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator has the power to take over our assets and operate our business with all the powers of our shareholders, directors and officers, and to conduct all business of the company.

The conservator may take any actions it determines are necessary and appropriate to carry on our business and preserve and conserve our assets and property. The conservator's powers include the ability to transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts (as defined below under "Special Powers of the Conservator Under the Regulatory Reform Act—Security Interests Protected; Exercise of Rights Under

Qualified Financial Contracts")) without any approval, assignment of rights or consent of any party. The Regulatory Reform Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy our general creditors.

In connection with any sale or disposition of our assets, the conservator must conduct its operations to maximize the net present value return from the sale or disposition, to minimize the amount of any loss realized, and to ensure adequate competition and fair and consistent treatment of offerors. In addition, the conservator is required to maintain a full accounting of the conservatorship and make its reports available upon request to shareholders and members of the public.

We remain liable for all of our obligations relating to our outstanding debt securities and Fannie Mae MBS. In a Fact Sheet dated September 7, 2008, FHFA indicated that our obligations will be paid in the normal course of business during the conservatorship.

Special Powers of the Conservator Under the Regulatory Reform Act

Disaffirmance and Repudiation of Contracts

The conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of our affairs. The Regulatory Reform Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as conservator. As of February 26, 2009, the conservator had not determined whether or not a reasonable period of time had passed for purposes of the applicable provisions of the Regulatory Reform Act and, therefore, the conservator may still possess this right. As of February 26, 2009, the conservator has advised us that it has not disaffirmed or repudiated any contracts we entered into prior to its appointment as conservator.

We can, and have continued to, enter into and enforce contracts with third parties. The conservator has advised us that it has no intention of repudiating any guaranty obligation relating to Fannie Mae MBS because it views repudiation as incompatible with the goals of the conservatorship.

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In general, the liability of the conservator for the disaffirmance or repudiation of any contract is limited to actual direct compensatory damages determined as of September 6, 2008, which is the date we were placed into conservatorship. The liability of the conservator for the disaffirmance or repudiation of a qualified financial contract is limited to actual direct compensatory damages (which include normal and reasonable costs of cover or other reasonable measures of damages utilized in the industries for such contract and agreement claims) determined as of the date of the disaffirmance or repudiation. If the conservator disaffirms or repudiates any lease to or from us, or any contract for the sale of real property, the Regulatory Reform Act specifies the liability of the conservator.

Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts

Notwithstanding the conservator's powers described above, the conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the Regulatory Reform Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. The term "qualified financial contract" means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement that FHFA determines by regulation, resolution or order to be a qualified financial contract.

Avoidance of Fraudulent Transfers

The conservator may avoid, or refuse to recognize, a transfer of any property interest of Fannie Mae or of any of our debtors, and also may avoid any obligation incurred by Fannie Mae or by any debtor of Fannie Mae, if the transfer or obligation was made (1) within five years of September 6, 2008, and (2) with the intent to hinder, delay, or defraud Fannie Mae, FHFA, the conservator or, in the case of a transfer in connection with a qualified financial contract, our creditors. To the extent a transfer is avoided, the conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, unless the transfer was made for value and in good faith. These rights are superior to any rights of a trust or any other party, other than a federal agency, under the U.S. bankruptcy code.

Modification of Statutes of Limitations

Under the Regulatory Reform Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the conservator is (1) for claims relating to a contract, the longer of six years or the applicable period under state law, and (2) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues. In addition, notwithstanding the state law statute of limitation for tort claims, the conservator may bring an action for any tort claim that arises from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct resulting in substantial loss to us, if the state's statute of limitations expired not more than five years before September 6, 2008.

Treatment of Breach of Contract Claims

Any final and unappealable judgment for monetary damages against the conservator for breach of an agreement executed or approved in writing by the conservator will be paid as an administrative expense of the conservator.

Attachment of Assets and Other Injunctive Relief

The conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate.

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Subpoena Power

The Regulatory Reform Act provides the conservator with subpoena power for purposes of carrying out any power, authority or duty with respect to Fannie Mae.

Management of the Company Under Conservatorship

Upon our entry into conservatorship on September 6, 2008, FHFA, as conservator, succeeded to the powers of our officers and directors. Accordingly, at that time, the Board of Directors had neither the power nor the duty to manage, direct or oversee our business and affairs. Thereafter, the conservator authorized the officers of Fannie Mae to continue to function in their applicable designated duties and delegated authorities, subject to the direction and control of the conservator. On September 7, 2008, the conservator appointed Herbert M. Allison, Jr. as our President and Chief Executive Officer, effective immediately. On September 16, 2008, FHFA appointed Philip A. Laskawy as the new non-executive Chairman of our Board of Directors. On November 24, 2008, FHFA reconstituted our Board of Directors and directed us regarding the function and authorities of the Board of Directors. FHFA's delegation of authority to the Board became effective on December 19, 2008 when nine Board members, in addition to the non-executive Chairman, were appointed by FHFA. The conservator retains the authority to withdraw its delegations to the Board and to management at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors do not have any duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

The delegation of authority to the Board will remain in effect until modified or rescinded by the conservator. In addition, the conservator directed the Board to consult with and obtain the approval of the conservator before taking action in specified areas, as described in "Part III—Item 10—Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors."

[This section goes on to discuss the losses that have been incurred by Fannie Mae shareholders as a result of the conservatorship and the terms of the financing arrangement currently in place with the U.S. Treasury Department.]

OUR CUSTOMERS

Our principal customers are lenders that operate within the primary mortgage market where mortgage loans are originated and funds are loaned to borrowers. Our customers include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities.

During 2008, approximately 1,000 lenders delivered mortgage loans to us, either for securitization or for purchase. We purchase a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2008, our top five lender customers, in the aggregate, accounted for approximately 66% of our single-family business volume, compared with 56% in 2007. Three lender customers each accounted for 10% or more of our single-family business volume for 2008: Bank of America Corporation, Citigroup and Wells Fargo & Company, including each of their respective affiliates.

Our top lender customer is Bank of America Corporation, which acquired Countrywide Financial Corporation on July 1, 2008. Our single-family business volume from the two companies has decreased compared to 2007. Bank of America Corporation and its affiliates, following the acquisition of Countrywide Financial Corporation, accounted for approximately 19% of our single-family business volume in the second half of 2008. For 2007, Countrywide Financial Corporation and its affiliates accounted for approximately 28% of our single-family business volume and Bank of America Corporation accounted for approximately 4% of our single-family business volume.

Due to increasing consolidation within the mortgage industry, as well as a number of mortgage lenders having gone out of business since late 2006, we, as well as our competitors, seek business from a decreasing number of large mortgage lenders. As we become more reliant on a smaller number of lender customers, our negotiating leverage with these customers decreases, which could diminish our ability to price our products and services optimally. In addition, many of our lender customers are experiencing financial and liquidity problems that may affect the volume of business they are able to generate. We discuss these and other risks that this customer concentration poses to our business in "Item 1A—Risk Factors."

COMPETITION

Historically, our competitors have included Freddie Mac, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans), the FHLBs, FHA, financial institutions, securities dealers, insurance companies, pension funds, investment funds and other investors. During 2008, almost all of our competitors, other than Freddie Mae, Ginnie Mae and the FHLBs, have ceased their activities in the residential mortgage finance business.

We compete to purchase mortgage assets in the secondary market both for our investment portfolio and for securitization into Fannie Mae MBS. Competition for the acquisition of mortgage assets is affected by many factors, including the supply of residential mortgage loans offered for sale in the secondary market by loan

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originators and other market participants, the current demand for mortgage assets from mortgage investors, and the credit risk and prices associated with available mortgage investments.

We also compete for the issuance of mortgage-related securities to investors. Before the current market downturn, there was a significant increase in the issuance of mortgage-related securities by non-agency issuers, which caused a decrease in our share of the market for new issuances of single-family mortgage-related securities from 2003 to 2006. Non-agency issuers, also referred to as private-label issuers, are those issuers of mortgage-related securities other than agency issuers Fannie Mae, Freddie Mac and Ginnie Mae. The mortgage and credit market disruption led many investors to curtail their purchases of private-label mortgage-related securities in favor of mortgage-related securities backed by GSE guarantees or government guarantees (through Ginnie Mae). During 2008, we also experienced increased competition from Ginnie Mae (which primarily guarantees mortgage-related securities backed by FHA-insured loans), as issuance of single-family mortgage-related securities was predominately isolated to securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. As a result of these changes in investor demand, our estimated market share of new single-family mortgage-related securities issuance increased from approximately 24.6% for the fourth quarter of 2006 to approximately 48.5% for the fourth quarter of 2007, but then decreased to approximately 41.7% for the fourth quarter of 2008. In comparison, Ginnie Mae's market share of new single-family mortgage-related securities issuance was approximately 3.6%, 9.0% and 37.8% for the fourth quarter of 2006, 2007 and 2008, respectively. Our estimates of market share are based on publicly available data and exclude previously securitized mortgages.

We also compete for low-cost debt funding with institutions that hold mortgage portfolios, including Freddie Mac and the FHLBs. In recent months, the Federal Reserve has been supporting the liquidity of our debt as an active and significant purchaser of our long-term debt in the secondary market. See "Part II—Item 7—MD&A—Liquidity and Capital Management—Liquidity Management—Debt Funding" for a discussion of our debt funding.

EMPLOYEES

As of December 31, 2008, we employed approximately 5,800 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file reports, proxy statements and other information with the SEC. We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's Web site, www.sec.gov. In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at (800) 237-8627 or (202) 752-7115 or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3S, Washington, DC 20016.

We are providing our Web site addresses and the Web site address of the SEC solely for your information. Information appearing on our Web site or on the SEC's Web site is not incorporated into this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, 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," "would," "should," "could," "may," or similar words.

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

- Our expectation that the current crisis in the U.S. and global financial markets will continue, which will continue to adversely affect our financial results throughout 2009;
- Our expectation that the unemployment rate will continue to increase;
- Our expectation of the continued deterioration of the U.S. housing market, continued home price declines and rising delinquency, default and severity rates;
- Our expectation that mortgage debt outstanding will shrink by approximately 0.2% in 2009;
- Our expectation that the level of foreclosures and single-family delinquency rates will continue to increase in 2009;
- Our expectation that home prices will decline 7% to 12% on a national basis in 2009, and that there will be a peak-to-trough decline in home prices of 20% to 30%;
- Our expectation that there will be significant regional variation in national home price decline percentages, with steeper declines in certain areas such as Florida, California, Nevada and Arizona;
- Our expectation that economic conditions and falling home prices will continue to negatively affect our credit performance in 2009, which will cause our credit losses to increase;