FANNIE MAE REPORT ON COMPENSATION

TO

THE COMMITTEE ON FINANCIAL SERVICES

OF THE U.S. HOUSE OF REPRESENTATIVES

AND

THE COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS

OF THE U.S. SENATE

PURSUANT TO P.L. 102-550

SECTION 1381(j)(2)

JUNE 19, 2018

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I. INTRODUCTION

Section 1381(j)(2) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("the 1992 Act") requires that Fannie Mae (also referred to as "the company") submit an annual report on compensation to the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs (collectively, "the Committees"). Specifically, the 1992 Act requires that Fannie Mae report on:

> "(i) the comparability of the compensation policies of the corporation with the compensation policies of other similar businesses,
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> (ii) in the aggregate, the percentage of total cash compensation and payments under employee benefit plans (which shall be defined in a manner consistent with the corporation's proxy statement for the annual meeting of shareholders for the preceding year) earned by executive officers[1] of the corporation during the preceding year that was based on the corporation's performance, and
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> (iii) the comparability of the corporation's financial performance with the performance of other similar businesses.

The report shall include a copy of the company's proxy statement for the annual meeting of shareholders for the preceding year."[2]

Fannie Mae has not issued a proxy statement for the preceding year because the company has not scheduled an annual meeting of shareholders. The information relating to compensation that would have been disclosed in Fannie Mae's proxy statement relating to the preceding year's compensation is included in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on February 14, 2018, and the relevant sections of the 2017 Form 10-K are being provided with this report.

Fannie Mae has been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to Fannie Mae's Board of Directors (the "Board") and has delegated to management the authority to conduct the company's day-to-day operations. For 2017, Fannie Mae reported annual net income of $2.5 billion and annual pre-tax income of $18.4 billion. Fannie Mae's net income in 2017 was adversely impacted by a $9.9 billion provision for federal income taxes resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). This one-time charge was due to the remeasurement of the company's deferred tax assets using the lower corporate tax rate enacted in the fourth quarter of 2017 with an effective date of January 1, 2018.

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[1] As defined in the 1992 Act, "executive officer" means "the chairman of the board of directors, chief executive officer, chief financial officer, president, vice chairman, and executive vice president, and any senior vice president in charge of a principal business unit, division, or function." 12 U.S.C. 4502(12). By agreement in 2005 with the Office of Federal Housing Enterprise Oversight, FHFA's predecessor, Fannie Mae segregated the functions of the Chairman of the Board and Chief Executive Officer. As a result, the Chairman of the Board is not an employee or officer of Fannie Mae and is not included in this discussion of performance-based compensation for executive officers. For the purpose of this report executive officer status was determined using the regulations at 12 CFR Part 1230.2 and includes all officers at the level of senior vice president or higher.

[2] 12 U.S.C. 1723a(d)(3)(A).

II. COMPARABILITY OF COMPENSATION POLICIES OF THE COMPANY

The 1992 Act requires that this report address the comparability of the compensation policies of Fannie Mae with the compensation policies of other similar businesses. Section 309(d)(2) of the Federal National Mortgage Association Charter Act ("Charter Act") establishes the authority of the Board to hire employees and to set reasonable compensation that is "comparable with compensation for employment in other similar businesses (including other publicly-held financial institutions or major financial services companies) involving similar duties and responsibilities" and provides that "any such action shall be without regard to the Federal civil service and classification laws."[3]

A. Overview of the Executive Compensation Program

FHFA has advised Fannie Mae that the company's executive compensation program was designed to fulfill, and to balance, three primary objectives:

- maintain lower pay levels to conserve taxpayer resources;
- attract and retain executive talent; and
- reduce pay if goals are not achieved.

Pay levels. Under the Equity in Government Compensation Act of 2015, the total target direct compensation for the position of chief executive officer is limited to $600,000 annually. This restriction applies as long as the company is in conservatorship or receivership. As a result, total target direct compensation for the company's Chief Executive Officer is $600,000, which consists solely of base salary.

As discussed more fully in the 2017 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," the company's Chief Executive Officer's compensation in 2017 was more than 90% below the market median for comparable firms.

Attracting and Retaining Executive Talent. The executive compensation program is intended to attract and retain executive talent with the specialized skills and knowledge necessary to effectively manage a large financial services company. Executives with these qualifications are needed for the company to continue to fulfill its important role in providing liquidity to the mortgage market and supporting the housing market, as well as to prudently manage the company's $3.2 trillion book of business and enable the company to be an effective steward of the government's and taxpayers' support. The current level of the company's chief executive officer compensation puts pressure on the company's ability to attract and retain executive talent. The company faces competition from both within the financial services industry and from businesses outside of this industry for qualified executives. The Compensation Committee and the company's Board of Directors consider and discuss with FHFA the level of the company's executive compensation and whether changes are needed to attract and retain executives.

[3] 12 U.S.C. 1723a(d)(2).

B. Elements of Executive Compensation Program

2017 Direct Compensation. The following table summarizes the principal elements, objectives and key features of the company's 2017 executive compensation program for its executive officers that was in place during 2017. As discussed more fully above and in the 2017 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2017 Executive Compensation Program—Compensation of our Chief Executive Officer," direct compensation for the company's Chief Executive Officer consists solely of base salary of $600,000. All elements of the executive officers' direct compensation are paid in cash.

Compensation Element	Form	Primary Compensation Objectives	Key Features
Base Salary	Fixed cash payments, which are paid during the year on a bi-weekly basis.	Attract and retain executive officers by providing a fixed level of current cash compensation.	Base salary reflects each executive officer's level of responsibility and experience, as well as individual performance over time. Base salary is capped by statute at $600,000 for the company's Chief Executive Officer and by FHFA at $600,000 for the company's current Chief Financial Officer and at $500,000 for the company's other executive officers.
Deferred Salary	Deferred salary is earned in bi-weekly increments over the course of the performance year, and is paid in quarterly installments in March, June, September and December of the following year. Interest accrues on deferred salary at one-half of the one-year Treasury Bill rate in effect on the last business day immediately preceding the year in which the deferred salary is earned. There are two elements of deferred salary: • a fixed portion that is generally subject to reduction if an executive leaves the company within one year following the end of the performance year; and • an at-risk portion that is subject to reduction based on assessments of corporate and individual performance following the end of the performance year.	*Fixed Deferred Salary*	
		Retain executive officers (other than our Chief Executive Officer)	Earned but unpaid fixed deferred salary is subject to reduction if an executive officer leaves the company within one year following the end of the performance year. The amount of earned but unpaid fixed deferred salary received by the executive officer will be reduced by 2% for each full or partial month by which the executive's separation date precedes January 31 of the second year following the performance year (or, if later, the end of the twenty-fourth month following the month in which the executive officer first earns deferred salary). The reduction provisions applicable to payments of earned but unpaid fixed deferred salary do not apply if an officer's employment terminates other than for cause at or after age 62, or age 55 with 10 years of service with the company, or as a result of death or long-term disability
		At-Risk Deferred Salary	
		Retain executive officers (other than the Chief Executive Officer) and encourage them to achieve corporate and individual performance objectives.	Equal to 30% of each executive officer's total target direct compensation. Half of at-risk deferred salary was subject to reduction based on corporate performance against the 2017 conservatorship scorecard as determined by FHFA. The remaining half of at-risk deferred salary was subject to reduction based on individual performance as determined by the Board of Directors, with FHFA's review, taking into account corporate performance against the 2017 Board of Directors' goals. There is no potential for at-risk deferred salary to be paid out at greater than 100% of target; at-risk deferred salary is subject only to reduction. If the executive's employment terminates due to death or long-term disability prior to the Board and FHFA's determination of performance, the reduction provisions applicable to payments of earned but unpaid at-risk deferred salary do not apply.

Employee Benefits. The company's employee benefits serve as an important tool in attracting and retaining executive officers. A general description of these employee benefits that were in place for 2017 is in the table below.

Benefit	Form	Primary Objective
401(k) Plan ("Retirement Savings Plan")	A tax-qualified defined contribution plan (401(k) plan) available to the company's employee population as a whole.	Attract and retain executive officers by providing retirement savings in a tax-efficient manner.
Non-qualified Deferred Compensation ("Supplemental Retirement Savings Plan")	The Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The plan supplements the company's tax-qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans.	Attract and retain executive officers by providing additional retirement savings.
Health, Welfare and Other Benefits	In general, the executive officers are eligible for the same benefits available to the company's employee population as a whole, including the company's medical insurance plans, life insurance program and matching charitable gifts program. The executive officers are also eligible to participate in the company's voluntary supplemental long-term disability plan, which is available to many of the company's employees.	Provide for the well-being of the executive officer and his or her family.

Fannie Mae has not entered into agreements with any of the company's named executives that entitle the executive to severance benefits. Executive officers who are not SEC executive officers may receive benefits under a severance plan in the event of certain involuntary terminations. Under the 2017 executive compensation program, a named executive is entitled to receive a specified portion of his or her earned but unpaid deferred salary if his or her employment is terminated for any reason other than for cause. See the company's 2017 Form 10-K in "Compensation Tables and Information—Potential Payments Upon Termination or Change-in-Control" for information on compensation that the company may pay to a named executive in certain circumstances in the event the executive's employment is terminated. In 2017, certain executive officers exited the company under a voluntary program for employees who were at least age 55 and who had at least 5 years of service. The company's named executives were not eligible to participate in this program.

Clawback

As discussed in more detail in the relevant sections of the company's 2017 Form 10-K, for executives who are SEC executive officers, compensation is subject to forfeiture and repayment provisions, also known as "clawback" provisions, in certain circumstances, including the grant of incentive compensation based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

C. Total Direct Compensation Targets

Total direct compensation targets for each executive officer are established based on the position requirements and the executive's expertise and experience. The Compensation Committee typically requests benchmark compensation data for the company's senior executives on an annual basis to assess the compensation of the company's senior executives as compared to a group of similar firms.

In late 2017, FW Cook, the Compensation Committee's independent compensation consultant, provided the Compensation Committee with a comparison of 2017 total target direct compensation for the company's Chief Executive Officer and Chief Financial Officer with compensation for comparable positions at companies in the company's primary comparator group, based on FW Cook's analysis of proxy statements and other SEC filings. McLagan, management's external compensation consultant, also provided the Compensation Committee with updated benchmarking data for the company's named executives (and other senior leadership roles) other than the company's Chief Executive Officer and Chief Financial Officer. The McLagan data compared the named executives' total direct compensation for 2017 with market ranges of 2016 direct compensation for comparable positions in the applicable comparator group of companies based on McLagan's proprietary database. Members of the Compensation Committee reviewed and discussed this data in late 2017. The company's Chief Executive Officer's compensation in 2017 was more than 90% below the market median for comparable firms. The executive compensation benchmarking process is discussed in more detail in the company's 2017 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data."

D. Performance Goals

2017 Conservatorship Scorecard. In December 2016, FHFA issued the 2017 conservator scorecard, a set of corporate performance objectives and related targets for 2017. Half of 2017 at-risk deferred salary, or 15 percent of overall 2017 total target direct compensation for each named executive, other than the company's Chief Executive Officer, was subject to reduction based on FHFA's assessment of the company's performance against the 2017 conservatorship scorecard and related objectives.

As discussed in more detail in the relevant sections of the 2017 Form 10-K provided with this report, in early 2018, FHFA reviewed and assessed the company's performance against the 2017 conservatorship scorecard, with input from management and the Compensation Committee. FHFA determined that the company completed all of the 2017 conservatorship scorecard objectives. FHFA determined that the portion of 2017 at-risk deferred salary based on corporate-performance would be paid at 100% of target.

2017 Board of Directors' Goals. The company's performance against goals established by the Board of Directors, referred to as the 2017 Board of Directors' goals, was a factor in determining

the amount of individual performance-based at-risk deferred salary each named executive received. In late 2017 and early 2018, the Compensation Committee reviewed the company's performance against the 2017 Board of Directors' goals. In connection with the Compensation Committee's review, management provided the Compensation Committee with a report assessing management's performance against the goals, which was reviewed for accuracy by the company's Internal Audit group. The Compensation Committee also discussed performance against the goals with the Chair of the Board's Audit Committee and the Chair of its Risk Policy and Capital Committee, as well as the company's Chief Audit Executive, the company's Chief Compliance Officer, and the company's Chief Risk Officer. The Compensation Committee considered management's assessment of its performance against the goals and also discussed with the Chief Executive Officer the performance of the company and of each named executive (other than the Chief Executive Officer). The Compensation Committee noted in its review that management executed the 2017 conservatorship scorecard and Board of Directors' goals in a manner that reflects a serious commitment to innovative change. Management demonstrated exceptionally high quality performance during a time of significant transformation and changes to the company's operations, infrastructure and management systems. The Compensation Committee noted that management conducted a wider and more aspirational range of activities during the year, demonstrating an extraordinary level of cohesion and alignment within the company's senior leadership team and surpassing a number of milestones in the process.

In January 2018, following its review of management's and the company's performance in 2017, and after discussions among all independent members of the Board of Directors, the Compensation Committee recommended and the Board of Directors determined that the individual component of the 2017 at-risk deferred salary should be funded at the 100% level. The Board of Directors did not assign any relative weight to the Board of Directors' goals and the Compensation Committee used its judgment in determining the overall level of performance. The Compensation Committee also provided FHFA with its assessment of management's performance against the 2017 Board of Directors' goals and its qualitative assessment of management's performance against the 2017 conservatorship scorecard objectives. See "Executive Compensation—Compensation Discussion and Analysis—Determination of 2017 Compensation—Assessment of 2017 Individual Performance" in the company's 2017 Form 10-K for information regarding the review by the Compensation Committee and the Board of the named executives' individual performance in establishing the individual performance-based component of 2017 at-risk deferred salary.

III. EXECUTIVE COMPENSATION AND PERFORMANCE-BASED PAY

This section addresses performance-based compensation for Fannie Mae's executive officers. The Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq., provides that the company has the power to pay compensation to its executive officers that the Board determines is reasonable and comparable to that of similar businesses (including other publicly-held financial institutions or major financial services companies) involving similar duties and responsibilities, and that a significant portion of potential compensation for all executive officers of Fannie Mae be based on the company's performance.

While the company is in conservatorship, FHFA, as conservator, has retained the authority to approve and to modify both the terms and amount of any executive compensation paid by the company. FHFA has also directed that management obtain FHFA's written decision before entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives who are named executives or SEC executive officers. FHFA has also directed that management obtain FHFA's written decision before making any changes in employee compensation that could significantly impact the company's employees, including retention awards, special incentive plans, and merit increase pool funding.

Under the company's 2017 executive compensation program, one-half of at-risk deferred salary is based on corporate performance and one-half of at-risk deferred salary is based on individual performance, with performance against the 2017 Board of Director goals being a factor in the determination of individual performance. Under the SEC rules governing the Summary Compensation Table included in the company's 2017 Form 10-K, 24 percent of total compensation earned by executive officers in 2017 was performance-based.[4]

[4] For this calculation, total compensation is defined as it is for the "total" column in the Summary Compensation Table and includes base salary, fixed deferred salary, at risk deferred salary, sign-on and retention awards, long-term incentive awards (in the case of executive officers recently promoted to senior vice president), and "all other compensation" (which is defined by the SEC). Variable, at-risk compensation for purposes of this calculation consists of 2017 at-risk deferred salary.

IV. COMPARABILITY OF FINANCIAL PERFORMANCE

The 1992 Act requires that Fannie Mae report on the comparability of Fannie Mae's financial performance with the performance of other similar businesses. The company has measured its net income beginning with 2013 and ending in 2017 against Freddie Mac and companies in the S&P 500 and S&P 500 Financials in the chart below. As discussed above, Fannie Mae's net income in 2017 was adversely impacted by a $9.9 billion provision for federal income taxes resulting from the enactment of the Tax Act. Fannie Mae's common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange in 2010, and since then has been traded in the over-the-counter market and quoted on the OTCQB under the symbol "FNMA." The company's net income is not available to holders of common stock or preferred stock other than Treasury as holder of the senior preferred stock. The terms of the senior preferred stock issued to Treasury ultimately require payment of the company's entire net worth, if any, to Treasury, less a capital reserve amount of $3 billion. Fannie Mae had a net worth deficit as of December 31, 2017.

Net Income from 2013 to 2017.

	Net Income (in millions)			
	FNMA	FRE	Companies in the S&P 500 Financials[5]	Companies in the S&P 500[5]
2013	$83,982[6]	$48,668	$2,799	$1,982
2014	14,209	7,690	2,857	1,972
2015	10,955	6,376	3,279	1,763
2016	12,313	7,815	3,165	1,879
2017	2,463[7]	5,625	3,276	2,076

V. CONCLUSION

The company's executive compensation program is intended to strike the balance between prudent executive pay and the need to attract and retain executives in order to protect the taxpayers' investment and achieve FHFA and corporate objectives.

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5 Data for the S&P 500 Financials and the S&P 500 was obtained from Bloomberg. We calculated the average company net income by dividing the total net income for the index by the number of companies at year end.

6 Fannie Mae reported annual net income of $84.0 billion and annual pre-tax income of $38.6 billion in 2013. See the company's 2013 Form 10-K for a discussion of the company's 2013 financial performance.

7 Fannie Mae reported annual pre-tax income of $18.4 billion in 2017, compared with $18.3 billion in 2016.