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 15, 2022

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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,

(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

(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 including compensation information for the preceding year because the company does not anticipate holding a shareholders’ meeting in 2022. Fannie Mae has not held a shareholders’ meeting since entering into conservatorship. The information relating to compensation that would have been disclosed in Fannie Mae’s proxy statement relating to the preceding year’s compensation is generally included in Fannie Mae’s Annual Report on Form 10-K for the year ended December 31, 2021 (“2021 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”) on February 15, 2022. The relevant sections of the 2021 Form 10-K are being provided with this report.

Fannie Mae has been in 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 provided for the exercise of certain functions and authorities by Fannie Mae’s Board of Directors. For 2021, Fannie Mae reported annual net income of $22.2 billion, compared with net income of $11.8 billion in 2020.

[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 Chair of the Board of Directors and Chief Executive Officer. As a result, the Chair of the Board of Directors 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 of Directors 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

Total annual direct compensation for the company's Chief Executive Officer is limited by statute to base salary at an annual rate of $600,000 while the company is in conservatorship or receivership. The executive compensation program applicable to the company's other executive officers was developed by FHFA in consultation with the Department of the Treasury. FHFA has advised Fannie Mae that the design of the company's executive compensation program was intended to fulfill and 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.

Maintain Lower Pay Levels to Conserve Taxpayer Resources. Given the company's conservatorship status, the company's executive compensation program is designed generally to provide for lower pay levels relative to large financial services firms that are not in conservatorship.

Attract and Retain Executive Talent. The company's 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 its $4.0 trillion guaranty book of business and enable the company to be an effective steward of taxpayer resources. The company faces competition for qualified executives from other companies. The Compensation and Human Capital Committee regularly considers the level of the executives' compensation and whether changes are needed to attract and retain executives.

Reduce Pay if Goals Are Not Achieved. To support FHFA's goals for the company's conservatorship and encourage performance in furtherance of these goals, 30% of each executive officer's total target direct compensation (other than the Chief Executive Officer's compensation) consists of at-risk deferred salary subject to reduction based on corporate and individual performance.

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

B. Elements of Executive Compensation Program

Direct Compensation. The table below summarizes the principal elements, objectives and key features of the company's 2021 executive compensation program for the company's executive officers. As discussed above, direct compensation for the company's Chief Executive Officer consists solely of base salary and no deferred salary. All elements of the executive officers' direct compensation are paid in cash.

<table>
<tr><th>Compensation Element</th><th>Form</th><th>Primary Compensation Objectives</th><th>Key Features</th></tr>
<tr><td>Base Salary</td><td>Fixed cash payments, which are paid during the year on a biweekly basis.</td><td>Attract and retain executive officers by providing a fixed level of current cash compensation.</td><td>Base salary reflects each executive officer’s level of responsibility and experience, as well as individual performance over time.

Base salary rate may not exceed $600,000 for any executive officer while the company is in conservatorship.</td></tr>
<tr><td rowspan="4">Deferred Salary

(Not applicable to the Chief Executive Officer)</td><td rowspan="4">Deferred salary earned in biweekly increments over the course of the performance year and paid in quarterly installments in March, June, September and December of the following year.[1]

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, unless he or she has met specified age and years of service requirements; 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.

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.</td><td colspan="2">Fixed Deferred Salary</td></tr>
<tr><td>Retain executive officers.</td><td>Earned but unpaid fixed deferred salary is generally subject to reduction if an executive officer leaves the company within one year following the end of the performance year unless he or she has met the age and years of service requirements specified below. 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 earned 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 Fannie Mae, or as a result of death or long-term disability.</td></tr>
<tr><td colspan="2">At-Risk Deferred Salary</td></tr>
<tr><td>Retain executive officers and encourage them to achieve corporate and individual performance objectives.</td><td>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 2021 scorecard as determined by FHFA in its discretion (business unit goals are used for the Compliance and Ethics and Internal Audit divisions). 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 2021 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 of Directors’ and FHFA’s determinations of performance, the reduction provisions applicable to payments of earned but unpaid at-risk deferred salary do not apply.</td></tr>
</table>

[1] In 2019, FHFA directed the company to increase the mandatory deferral period for at-risk deferred salary received by senior vice presidents and above from one year to two years. For executives hired or promoted to senior vice president on or after January 1, 2020, this change was effective for at-risk deferred salary earned beginning January 1, 2020. For executives hired before January 1, 2020, this change became effective for at-risk deferred salary earned beginning January 1, 2022; however, pursuant to an FHFA directive issued in June 2022, for these executives hired before January 1, 2020, one-half of at-risk deferred salary earned in 2022 will be paid in quarterly

installments in the first year following the performance year and the remaining one-half of at-risk deferred salary earned in 2022 will be paid in quarterly installments in the second year following the performance year. For compensation earned in 2023 and thereafter, all at-risk deferred salary will be paid in quarterly installments in the second year following the performance year. This mandatory deferral period for at-risk deferred salary applies for so long as the company is in conservatorship.

Employee Benefits. The company's employee benefits serve as an important tool in attracting and retaining executive officers. A general description of the employee benefits available in 2021 to the executive officers is included 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 Retirement Savings Plan by providing benefits to participants whose annual eligible earnings exceed the Internal Revenue Service ("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, executive officers are eligible for the same benefits available to the employee population as a whole, including the medical insurance plans, life insurance program and matching charitable gifts program. 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.

Sign-on Awards and Relocation Benefits. In addition to the direct compensation and employee benefits described in the tables above, from time to time the company may offer a sign-on award to a new executive officer to attract the executive officer to join the company and/or to compensate the executive for compensation forfeited upon leaving a prior employer. The company also from time to time may offer relocation benefits to a new executive officer to attract the executive by reimbursing them for costs associated with moving to the Washington, DC area.

Chief Operating Officer Retention Award. In July 2021, the company entered into a retention award agreement with the company's Executive Vice President and Chief Operating Officer. Among other requirements, the retention award agreement provides that the executive is required to repay any portion of the retention award already paid to her (net of withholding taxes) if, on or before December 1, 2022, she voluntarily terminates her employment with Fannie Mae. As a result of her resignation in April 2022, the executive repaid the first installment of her award and will not receive the remaining installment of her award. For more information on this retention award, refer to "Executive Compensation—Compensation Discussion and Analysis—2021 Executive Compensation Program; Chief Executive Officer Compensation—Chief Operating Officer Retention Award" in the company's 2021 Form 10-K.

Severance Benefits. The company has not entered into agreements with any of the company's named executives (as defined in "Executive Compensation" in the company's 2021 Form 10-K) that entitle the named 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 2021 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 "Executive Compensation—Compensation Tables and Other Information—Potential Payments Upon Termination or Change-in-Control" in the company's 2021 Form 10-K 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.

Clawback. As discussed in more detail in "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Compensation Recoupment Policies" in the company's 2021 Form 10-K, for executives who are SEC executive officers, a portion of the executive officers' compensation is subject to forfeiture or repayment, also known as "clawback," 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

The Compensation and Human Capital 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 relative to a comparator group or other appropriate benchmarks. In 2021, the Compensation and Human Capital Committee used benchmark compensation data as one of a number of factors that informed its compensation decisions. The company's executive compensation benchmarking process is discussed in more detail in the company's 2021 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data."

D. Performance Goals

2021 Scorecard. In February 2021, FHFA issued the 2021 scorecard, a set of corporate performance objectives and related targets for 2021. Half of 2021 at-risk deferred salary, or 15% of overall 2021 total target direct compensation for each executive officer other than the company's Chief Executive Officer, was subject to reduction based on FHFA's assessment in its discretion of the company's performance against the 2021 scorecard and related objectives, including the qualitative assessment criteria identified in the 2021 scorecard.

As discussed in more detail in "Executive Compensation—Compensation Discussion and Analysis—Determination of 2021 Compensation—Assessment of Corporate Performance against 2021 Scorecard" in the company's 2021 Form 10-K, in January and February 2022, FHFA reviewed and assessed the company's performance against the 2021 scorecard, with input from management. FHFA determined that the company's overall performance against the 2021 scorecard was strong and that the portion of 2021 at-risk deferred salary for senior executives that is based on corporate performance would be paid at 92% of target. In assessing the company's performance against the 2021 scorecard, the factors considered by FHFA included the company's completion of all of the 2021 scorecard objectives that were assessed and the company's performance against the qualitative assessment criteria for the 2021 scorecard.

2021 Board of Directors' Goals. The company's performance against goals for 2021 established by the Board of Directors, referred to as the 2021 Board of Directors' goals, was a factor the Board of Directors used to determine the individual performance of the named executives, other than the company's Chief Executive Officer, for purposes of the individual performance-based component of the named executives' 2021 at-risk deferred salary.

In December 2021 and January 2022, the Compensation and Human Capital Committee reviewed the company's performance against the 2021 Board of Directors' goals. The Compensation and Human Capital Committee concluded that management delivered strong results in a safe and sound manner under dynamic conditions. Despite the challenges posed by market conditions, sustained remote working and the ongoing COVID-19 pandemic, Fannie Mae achieved or substantially met all of the objectives that comprise the 2021 Board of Directors' goals. In assessing management's performance, the Compensation and Human Capital Committee recognized that the company well exceeded a number of the performance metrics established pursuant to the 2021 Board of Directors' goals, successfully launched new initiatives, and delivered positive financial and mission-oriented results. The Compensation and Human Capital Committee acknowledged that management fell slightly short of its objective to maintain its annual minority engagement index score at or above the benchmark for high-performing companies. The Committee also acknowledged opportunities for improvement in management's performance in 2021 relating to its engagement and communication with FHFA.

The Board of Directors did not assign any relative weight to the Board of Directors' goals and the Compensation and Human Capital Committee used its judgment in determining the overall level of company performance. In January 2022, following its review of management's and the company's performance in 2021, and after discussions among the independent members of the Board of Directors, the Compensation and Human Capital Committee recommended, and the Board of Directors determined, that corporate performance against the 2021 Board of Directors' goals was 95% overall.

The Compensation and Human Capital Committee and the Board of Directors also assessed the 2021 individual performance of each named executive in January 2022. Following these assessments, the Compensation and Human Capital Committee recommended, and the Board of Directors determined, each eligible named executive's individual performance-based at-risk deferred salary amount for 2021.

The Compensation and Human Capital Committee provided FHFA with its assessment of corporate performance against the 2021 Board of Directors' goals. In February 2022, FHFA approved the performance-based at-risk deferred salary payments for the eligible named executives. See "Executive Compensation—Compensation Discussion and Analysis—Determination of 2021 Compensation—Assessment of 2021 Individual Performance" in the company's 2021 Form 10-K, which addresses the Board's determinations regarding each named executive's individual performance-based at-risk deferred salary amount for 2021.

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 of Directors 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 requires that a significant portion of potential compensation for all executive officers of Fannie Mae be based on the company's performance.

Due to the company's conservatorship status and other legal requirements, FHFA, as the company's conservator and regulator, has significant oversight and approval rights over the company's executive compensation arrangements and determinations. Congress has also enacted legislation that significantly impacts the compensation the company pays its executive officers. These requirements and legislation are described in "Executive Compensation—Compensation Discussion and Analysis—2021 Executive Compensation Program; Chief Executive Officer Compensation—Legal, Regulatory and Conservator Restrictions on Executive Compensation" in the company's 2021 Form 10-K.

Under the company's 2021 executive compensation program, one-half of at-risk deferred salary is based on corporate performance (business unit goals are used for the Compliance and Ethics and Internal Audit divisions) and one-half of at-risk deferred salary is based on individual performance, with performance against the 2021 Board of Directors' goals being a factor in the determination of individual performance. Under the SEC rules governing the Summary Compensation Table included in the company's 2021 Form 10-K, 25.67% of total compensation earned by executive officers in 2021 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 2021 at-risk deferred salary and long-term incentive awards (where applicable).

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 2017 and ending in 2021 against Freddie Mac and companies in the S&P 500 Financials and S&P 500 in the chart below. 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, operated by OTC Markets Group, Inc., under the symbol "FNMA." As a result of the company's conservatorship status and the terms of the senior preferred stock, no amounts are currently available to distribute as dividends to common or preferred stockholders. Fannie Mae had a positive net worth of $47.4 billion as of December 31, 2021.

Net Income from 2017 to 2021

Net Income (dollars in millions)				
	Fannie Mae	Freddie Mac	Companies in the S&P 500 Financials[5]	Companies in the S&P 500[6]
2017	2,463	5,625	3,180	2,063
2018	15,959	9,235	3,652	2,294
2019	14,160	7,214	5,067	2,529
2020	11,805	7,326	3,494	1,798
2021	22,176	12,109	6,458	3,766

V. CONCLUSION

The company's executive compensation program is intended to fulfill, and to balance, the three primary objectives of maintaining lower pay levels to conserve taxpayer resources, attracting and retaining executive talent, and reducing pay if goals are not achieved.

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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.