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 20, 2017

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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
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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, 2016 ("2016 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on February 17, 2017, and the relevant sections of the 2016 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 2016, Fannie Mae reported annual net income of $12.3 billion and annual pre-tax income of $18.3 billion.

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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 reduced 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 2016 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 2016 was more than 90% below the market median for comparable firms, and for other named executives (as defined in "Executive Compensation" in the company's 2016 Form 10-K), total target direct compensation under the 2016 executive compensation program was, in aggregate, substantially below the market median.

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 book of business, which was $3.1 trillion as of December 31, 2016, and enable the company to be an effective steward of the government's and taxpayers' support. The current levels of the company's executive compensation put 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 of Fannie Mae's Board of Directors and the Board regularly 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

2016 Direct Compensation. The following table summarizes the principal elements, objectives and key features of the company's 2016 executive compensation program for its executive officers that was in place during 2016. As discussed more fully above and in the 2016 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2016 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 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.	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.
		At-Risk Deferred Salary	
		Retain executive officers 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 2016 conservatorship scorecard as determined by FHFA (division goals apply to Internal Audit and Compliance and Ethics). 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 2016 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.

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 2016 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.

The perquisites the company provided to all of the company's named executives in aggregate in 2016 did not exceed $1,000.

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 2016 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 2016 Form 10-K in "Compensation Tables—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 2016, 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 2016 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 2016, FW Cook, the Compensation Committee's independent compensation consultant, provided the Compensation Committee with a comparison of 2016 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 other than the company's Chief Executive Officer and Chief Financial Officer. The McLagan data compared the named executives' total direct compensation for 2016 with market ranges of 2015 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 2016. The company's Chief Executive Officer's compensation in 2016 was more than 90% below the market median for comparable firms, and our other named executives' total target direct compensation under the 2016 executive compensation program was, in aggregate, substantially below the market median. The executive compensation benchmarking process is discussed in more detail in the company's 2016 Form 10-K under "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data."

D. Performance Goals

2016 Conservatorship Scorecard. In December 2015, FHFA issued the 2016 conservator scorecard, a set of corporate performance objectives and related targets for 2016. Half of 2016 at-risk deferred salary, or 15 percent of overall 2016 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 2016 conservatorship scorecard and related objectives.

As discussed in more detail in the relevant sections of the 2016 Form 10-K provided with this report, in early 2017, FHFA reviewed and assessed the company's performance against the 2016 conservatorship scorecard, with input from management and the Compensation Committee. FHFA determined that the company completed or substantially completed all of the

2016 conservatorship scorecard objectives. FHFA determined that the portion of 2016 at-risk deferred salary based on corporate-performance would be paid at 98% of target.

2016 Board of Directors' Goals. The company's performance against goals established by the Board of Directors, referred to as the 2016 Board of Directors' goals, as determined by the Board of Directors, was a factor in determining the amount of individual performance-based at-risk deferred salary each named executive received. In late 2016 and early 2017, the Compensation Committee reviewed performance against the 2016 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's achievements with respect to the 2016 Board of Directors' goals and the 2016 conservatorship scorecard were accomplished in a complicated and evolving operating environment, at a time when management was continuing to implement large-scale organizational changes. The Compensation Committee also favorably recognized management's efforts to address any issues with the 2016 Board of Directors' goals and the 2016 conservatorship scorecard in a thoughtful, collaborative and unified manner. The Committee also indicated its view that management achieved a wider and more aspirational range of activities under the 2016 Board of Directors' goals and the 2016 conservatorship scorecard than during any prior years of conservatorship, demonstrating an extraordinary level of collaboration and alignment within the company's senior leadership team.

In January 2017, following its review of management's and the company's performance in 2016, 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 2016 at-risk deferred salary should be funded at the 100% level. The Compensation Committee also provided FHFA with its assessment of management's performance against the 2016 Board of Directors' goals and its qualitative assessment of management's performance against the 2016 conservatorship scorecard objectives. See "Compensation Discussion and Analysis—Determination of 2016 Compensation—Assessment of 2016 Individual Performance" in the company's 2016 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 2016 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 consult with and obtain FHFA's written approval before entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives at the senior vice president level and above, and other executives as FHFA may deem necessary to successfully execute its role as conservator. FHFA has also directed that management consult with and obtain FHFA's written approval before establishing or modifying performance management processes for executives at the senior vice president level and above and any executives designated as "officers" pursuant to Section 16 of the Exchange Act, and before assessing the company's performance against a conservator scorecard.

Under the company's 2016 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 2016 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 2016 Form 10-K, 26 percent of total compensation earned by executive officers in 2016 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), changes in pension value, and "all other compensation" (which is defined by the SEC). Variable, at-risk compensation for purposes of this calculation consists of 2016 at-risk deferred salary.

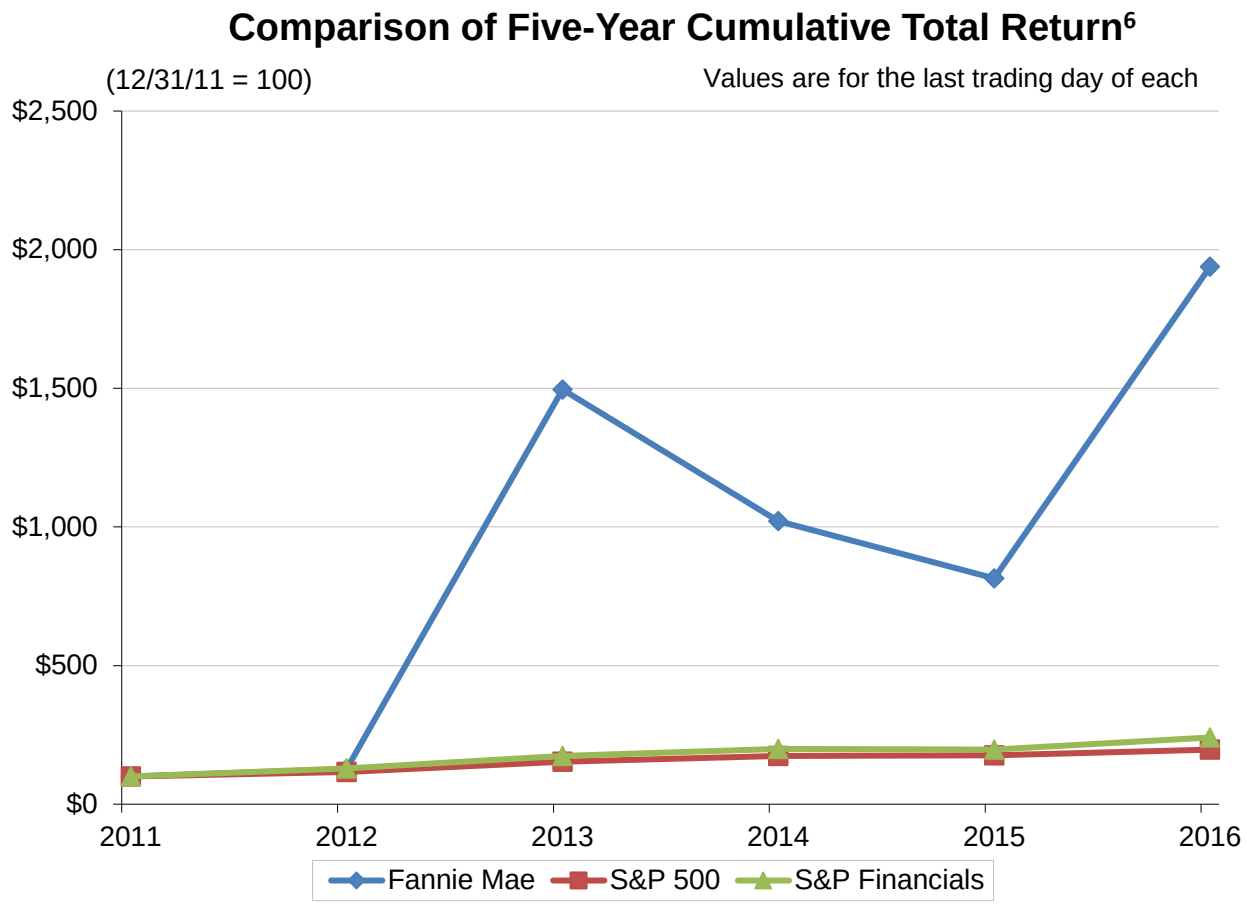
IV. COMPARABILITY OF FINANCIAL PERFORMANCE

The 1992 Act requires that Fannie Mae report on the comparability of Fannie Mae's financial performance with the performance of other similar businesses. Consistent with last year, the company has measured shareholders' cumulative total return on investment[5] for the five years ending in 2016 and measured the change in Fannie Mae's net income since 2012. In both cases, Fannie Mae's performance is measured against two indices – S&P 500 and S&P Financials. Fannie Mae's common stock was delisted from the New York Stock Exchange and the Chicago Stock Exchange on July 8, 2010, and since then has been traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA." The terms of the company's senior preferred stock purchase agreement with Treasury and the senior preferred stock issued thereunder ultimately require the payment of the company's entire net worth to Treasury, less a capital reserve amount, which continues to decrease annually until it reaches zero in 2018. As a result, 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.

Shareholders' Cumulative Total Return on Investment. Fannie Mae's five-year cumulative total return as compared to both the S&P 500 and of the S&P Financials is illustrated by the chart below. A $100 investment in Fannie Mae common stock at the end of 2011 would have yielded $1938.37 by the end of 2016. A similar $100 investment during the same period (1) in companies included in the S&P 500 would have yielded $196.78 and (2) in companies included in the S&P Financials would have yielded $240.63. This analysis assumes full reinvestment of dividends where applicable.

Return in Dollars Based on $100 Investment in Each Category			
Year	Fannie Mae	S&P 500	S&P Financials
2011	100.00	100.00	100.00
2012	126.74	115.88	128.52
2013	1496.02	153.01	173.89
2014	1021.37	173.69	199.96
2015	815.11	176.07	196.84
2016	1938.37	196.78	240.63

[5] Measured as the cumulative change in the value of a hypothetical investment of $100 that was made in Fannie Mae common stock on December 31, 2011, after considering (i) subsequent changes in the price of Fannie Mae common stock and (ii) any dividends otherwise payable on such investment that were assumed to be fully re-invested in Fannie Mae common stock.

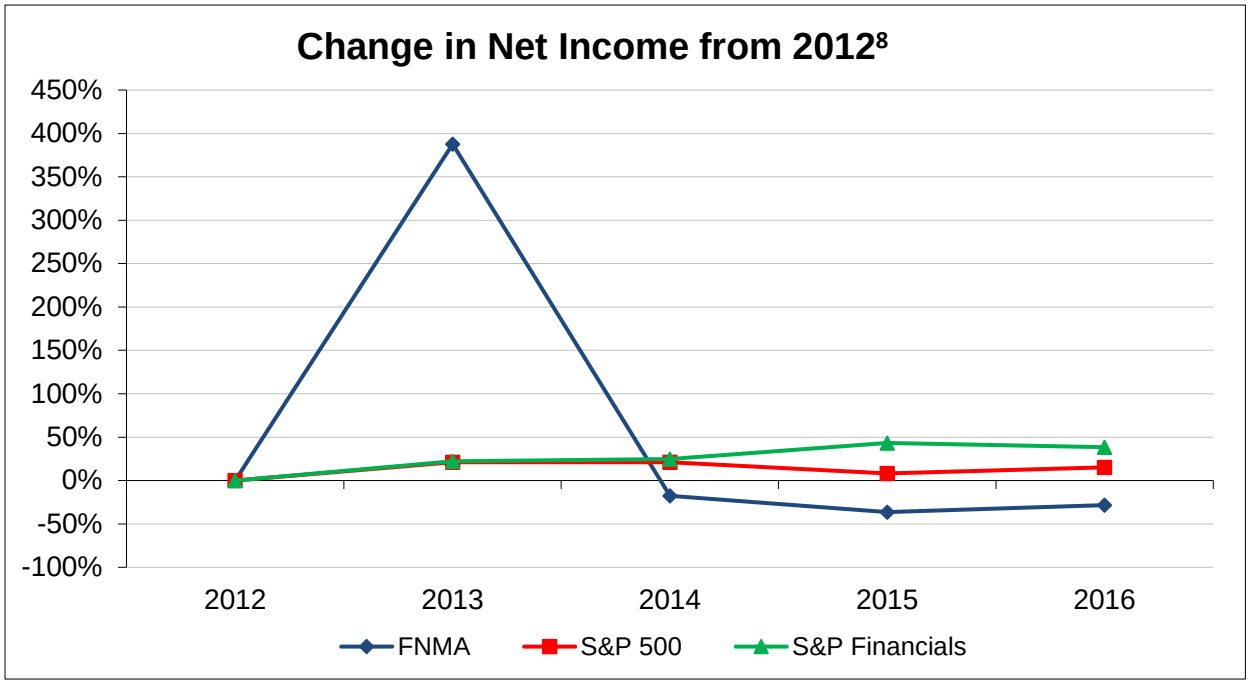


[6] Measured as the value of a hypothetical investment of $100 that was made in Fannie Mae common stock or the applicable S&P investment on December 31, 2011, after considering (i) subsequent changes in the price of Fannie Mae common stock and the S&P investment, and (ii) any dividends otherwise payable on such investment that were assumed to be fully re-invested in such investment.

Change in Net Income from 2012. The company has measured its change in net income beginning with 2012 and ending in 2016 against the S&P 500 and S&P Financials.

Net Income			
(In Millions)	FNMA	S&P 500	S&P Financials
2012	17,220	821,632	148,738
2013	83,982[7]	994,762	181,928
2014	14,209	993,918	185,737
2015	10,955	890,213	213,130
2016	12,313	947,207	205,707

Change in Net Income from 2012			
	FNMA	S&P 500	S&P Financials
2012	0%	0%	0%
2013	388%	21%	22%
2014	-17%	21%	25%
2015	-36%	8%	43%
2016	-28%	15%	38%



[7] 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.

[8] Reflects net income change over the period from the base year of 2012 to 2016. Percentage change in Net Income for subsequent years is calculated by dividing the change in Net Income from the base year by the absolute value of Net Income in the base year.

Data was obtained from Bloomberg. Each year's net income for the indices was calculated by summing the net income of the individual companies that were in the index on 12/31/2016.

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.