



DODD-FRANK ACT STRESS TESTS RESULTS

SEVERELY ADVERSE SCENARIO

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I. Overview

Fannie Mae and Freddie Mac (the Enterprises) are required to conduct annual stress tests pursuant to U.S. Federal Housing (Federal Housing Finance Agency or FHFA) rule 12 CFR 1238, which implements section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Section 165(i)(2) of the Dodd-Frank Act, as amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) requires certain financial companies with total consolidated assets of more than \$250 billion, that are regulated by a primary federal financial regulatory agency, to conduct periodic stress tests to determine whether the companies have the capital necessary to absorb losses as a result of severely adverse economic conditions.¹ These changes became effective on March 24, 2020. This is the thirteenth implementation of the Dodd-Frank Act Stress Tests (DFAST) for the Enterprises.

FHFA requires the Enterprises to conduct DFAST annually to provide insight into risk exposure and potential sources of losses under the prescribed conditions — including the “severely adverse” scenario described below. The assumed severely adverse conditions are identical for both Enterprises.

While the aligned assumptions provide a degree of comparability between them, the Enterprises used their respective internal models to project their financial results. Accordingly, differences in the Enterprises’ respective internal models, funding costs, portfolio strategies, accounting differences, or management actions impact the reported results.

The projections reported here are not expected outcomes. They are modeled projections in response to “what if” exercises based on assumptions about Enterprise operations, loan performance, macroeconomic and financial market conditions, and house prices. The projections do not define the full range of possible outcomes. Actual outcomes may be different.

¹ In September 2008, FHFA suspended capital requirements after placing Fannie Mae and Freddie Mac into conservatorships. The Senior Preferred Stock Purchase Agreements that were established between the Department of the Treasury (Treasury) and each Enterprise limited the amount of capital that each Enterprise could hold to a Capital Reserve Amount of \$3.0 billion. However, on September 27, 2019, FHFA, acting in its capacity as the conservator of the Enterprises, and Treasury entered into a letter agreement modifying the dividend and liquidation preference provisions of the senior preferred stock held by Treasury. Effective with the third quarter 2019 dividend period, the Enterprises were not required to pay further dividends to Treasury until they accumulated over \$25 billion in net worth at Fannie Mae and \$20 billion in net worth at Freddie Mac. Subsequently, on January 14, 2021, FHFA and Treasury announced amendments to the Senior Preferred Stock Purchase Agreements. The amendments allow the Enterprises to continue to retain earnings until they satisfy the requirements of the 2020 Enterprise Regulatory Capital Framework.



II. Description of Severely Adverse Scenario

The 2026 DFAST Severely Adverse scenario is characterized by a severe global recession accompanied by stressed residential and commercial real estate as well as corporate debt markets. The scenario is not a forecast, but instead is a hypothetical future economic environment designed to assess the strength of the Enterprises and other financial institutions and their resilience to unfavorable market conditions. The timeline for the 2026 DFAST is the nine-quarter period from December 31, 2025 through March 31, 2028.

In the 2026 DFAST Severely Adverse scenario, U.S. real GDP declines by 4.6 percent from the fourth quarter of 2025, reaching a trough in the second quarter of 2027 before recovering to the level at the jump-off. The rate of unemployment increases by 5.5 percentage points compared to the beginning of the planning horizon, reaching a peak of 10 percent in the seventh quarter of the scenario. The annualized consumer price index (CPI) inflation rate falls from 2.8 percent at the end of 2025 to 1.0 percent in the fourth quarter of 2026 and then slightly rises by the end of the nine-quarter planning horizon.

The 3-month Treasury rate falls significantly from 3.7 percent at the end of 2025 to 0.1 percent two quarters later, where it remains for the rest of the planning horizon. The 10-year Treasury yield falls by 1.8 percentage points to 2.3 percent by the fourth quarter of 2026 and then gradually increases beginning in late 2027 to 2.4 percent by the end of the planning horizon. The decline in the 10-year Treasury yield is roughly in line with the decline experienced between the third quarter of 2007 and the first quarter of 2009, during the 2007-2009 financial crisis.

Associated with the macroeconomic developments, asset prices decline sharply as financial conditions in corporate and real estate lending markets become severely stressed. The spread between domestic BBB-rated corporate bonds and yields on 10-year Treasury securities increases 4.7 percentage points by the third quarter of 2026, reaching a level of 5.7 percentage points. Seventy-two percent of the jump-off-to-peak increase in the BBB spread occurs in the first quarter of the scenario. The spread between mortgage rates and 10-year Treasury yields widens 1.3 percentage points to reach a level of 3.4 percentage points by the end of the third quarter of 2026 before narrowing to a level of about 2.9 percentage points at the end of the nine-quarter planning horizon. In addition, equity prices fall by 58 percent through the third quarter of 2026, and equity market volatility increases substantially. Home prices decline sharply through the fourth quarter of 2027, reaching a trough that is about 30 percent below their year-end 2025 levels, and commercial real estate prices fall by 39 percent through the fourth quarter of 2027. Residential and commercial real estate prices then recover slowly but are still well below their year-end 2025 levels at the end of the planning horizon.



Compared to last year's DFAST, the 2026 severely adverse scenario includes a slightly smaller increase in the unemployment rate due to the slightly higher starting rate. The magnitude of the decline in the 10-year Treasury yield is lower due to the somewhat lower starting level of interest rates as well as a higher trough compared to the 2025 severely adverse scenario. The decline in equity prices is slightly more severe than in the 2025 DFAST, and the residential real estate price decline is less severe while the commercial real estate price decline is substantially more severe than in the 2025 DFAST.

The 2026 DFAST Severely Adverse scenario includes a global market shock component that primarily impacts the Enterprises' retained portfolios. This year's global market shock is characterized by heightened market expectations of persistently high inflation, higher commodity prices, and a global recession. Treasury yields increase across all tenors in this year's global market shock, whereas last year yields decreased with short-term yields falling more than long-term yields. The U.S. dollar appreciates against most major currencies in both the 2025 and 2026 global market shocks. Credit spreads likewise widen and equity prices fall in both the 2025 and 2026 global market shocks. Compared to the 2025 DFAST cycle, this year's global market shock includes less severe spread shocks impacting the Enterprises' agency mortgage-backed securities (MBS) and whole loans, and lower market value shocks impacting the Enterprises' private label securities (PLS) holdings.

The global market shock also includes a counterparty default component that assumes the failure of each Enterprise's largest counterparty. The global market shock is treated as an instantaneous loss and reduction of capital in the first quarter of the planning horizon, and the scenario assumes no recovery of these losses by the Enterprises in future quarters. For those positions subject to the global market shock, FHFA instructed the Enterprises to report the greater of the global market shock losses or the losses attributable to the macroeconomic scenario for the identical positions.



III. FHFA Guidance

FHFA instructed the Enterprises to extrapolate any scenario variables beyond the projection date as required. FHFA provided one year of scenario assumptions beyond the nine-quarter planning horizon to be used by the Enterprises as needed. Additionally, FHFA provided historical data on scenario variables in the event that models required that information.

FHFA instructed the Enterprises to comply with the terms of the Senior Preferred Stock Purchase Agreements, as amended, to determine the level of dividends to be paid during each quarter of the planning horizon.

FHFA communicated specific instructions to address particular issues relevant to the Enterprises' unique lines of business. FHFA required the Enterprises to use aligned regional house price paths to improve the comparability of stress test results. Additionally, FHFA broadened the definition of counterparties to be considered in the largest counterparty default component of the global market shock to include mortgage insurers, unsecured overnight deposits, providers of multifamily credit enhancements, nonbank servicers, and credit risk transfer reinsurance counterparties.

IV. Severely Adverse Scenario Results Detail

- Fannie Mae projected comprehensive losses while Freddie Mac projected comprehensive income, without establishing a valuation allowance on Deferred Tax Assets (DTA) in the severely adverse scenario.
- The provision for credit losses was the largest expense at both Enterprises.
- The second largest expense at both Enterprises was the global market shock, inclusive of the largest counterparty default component.

The following tables reflect the Enterprises' results on the Dodd-Frank Act Stress Tests.



Table 1: DFAST Severely Adverse Scenario Results – Combined

Cumulative Projected Financial Metrics (Q1 2026 - Q1 2028)		
	Billions of dollars	Percent of average assets ⁷
Pre-provision net revenue ¹	\$71.4	0.91%
(Provision) benefit for credit losses	(58.6)	
Mark-to-market gains (losses) ²	(6.1)	
Global market shock impact on trading securities and counterparty	(7.1)	
Net income before taxes	(\$0.3)	0.00%
(Provision) benefit for taxes	0.5	
Other comprehensive income (loss) ³	(0.2)	
Total comprehensive income (loss)	(\$0.1)	0.00%
Net Worth	\$179.4	
CET1 Capital ⁴	(\$69.9)	
Credit losses ⁵	(\$33.2)	
Credit losses (% of average portfolio balance) ⁶	0.43%	

¹ Includes net interest income, operational risk losses, foreclosed property income (expense), and other non-interest income/expenses.

² Includes fair value gains (losses) on derivative and trading securities, and other gains (losses) on investment securities.

³ Includes global market shock impact on available-for-sale securities.

⁴ Represents the Enterprises' hypothetical common equity tier 1 capital deficit as of March 31, 2028.

⁵ Credit losses are defined as charge-offs, net plus foreclosed property expenses.

⁶ Average portfolio balance over the nine-quarter planning horizon.

⁷ Average total assets over the nine-quarter planning horizon.

Additional Notes

· Numbers may not foot due to rounding.



Table 2: DFAST Severely Adverse Scenario Results – Fannie Mae

Cumulative Projected Financial Metrics (Q1 2026 - Q1 2028)		
	Billions of dollars	Percent of average assets ⁷
Pre-provision net revenue ¹	\$35.5	0.82%
(Provision) benefit for credit losses	(35.0)	
Mark-to-market gains (losses) ²	(3.2)	
Global market shock impact on trading securities and counterparty ³	(3.9)	
Net income before taxes	(\$6.6)	0.15%
(Provision) benefit for taxes	1.8	
Other comprehensive income (loss) ³	(0.0)	
Total comprehensive income (loss)	(\$4.9)	0.11%
Net Worth	\$104.1	
CET1 Capital ⁴	(\$51.7)	
Credit losses ⁵	(\$20.8)	
Credit losses (% of average portfolio balance) ⁶	0.51%	

¹ Includes net interest income, operational risk losses, foreclosed property income (expense), and other non-interest income/expenses.

² Includes fair value gains (losses) on derivative and trading securities, and other gains (losses) on investment securities.

³ Includes global market shock impact on available-for-sale securities.

⁴ Represents the Enterprise's hypothetical common equity tier 1 capital deficit as of March 31, 2028.

⁵ Credit losses are defined as charge-offs, net plus foreclosed property expenses.

⁶ Average portfolio balance over the nine-quarter planning horizon.

⁷ Average total assets over the nine-quarter planning horizon.

Additional Notes

· Numbers may not foot due to rounding.



Table 3: DFAST Severely Adverse Scenario Results – Freddie Mac

Cumulative Projected Financial Metrics (Q1 2026 - Q1 2028)		
	Billions of dollars	Percent of average assets ⁷
Pre-provision net revenue ¹	\$35.9	1.02%
(Provision) benefit for credit losses	(23.5)	
Mark-to-market gains (losses) ²	(2.9)	
Global market shock impact on trading securities and counterparty	(3.2)	
Net income before taxes	\$6.3	0.18%
(Provision) benefit for taxes	(1.3)	
Other comprehensive income (loss) ³	(0.2)	
Total comprehensive income (loss)	\$4.8	0.14%
Net Worth	\$75.2	
CET1 Capital ⁴	(\$18.2)	
Credit losses ⁵	(\$12.4)	
Credit losses (% of average portfolio balance) ⁶	0.34%	

¹ Includes net interest income, operational risk losses, foreclosed property income (expense), and other non-interest income/expenses.

² Includes fair value gains (losses) on derivative and trading securities, and other gains (losses) on investment securities.

³ Includes global market shock impact on available-for-sale securities.

⁴ Represents the Enterprise's hypothetical common equity tier 1 capital deficit as of March 31, 2028.

⁵ Credit losses are defined as charge-offs, net plus foreclosed property expenses.

⁶ Average portfolio balance over the nine-quarter planning horizon.

⁷ Average total assets over the nine-quarter planning horizon.

Additional Notes

· Numbers may not foot due to rounding.

