



Federal Housing Finance Agency

Conservator's Report
on the Enterprises' Financial Performance

First Quarter 2012

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The purpose of this report is to provide an overview of key aspects of the financial condition of Fannie Mae and Freddie Mac (the Enterprises) during conservatorship. The data in this report are derived primarily from the Enterprises' SEC filings and other publicly available sources. In some cases, FHFA adjusted the classification of certain data to provide comparability between the Enterprises. In other cases, the Enterprises' reporting methodologies changed over time. Therefore, the data in this report may not exactly match published figures.

Executive Summary

Mortgage Markets and the Enterprises' Market Presence

Seventy-five percent of all mortgage originations in the first quarter of 2012 were due to refinance volume. Refinance volumes surged during the first quarter of 2012, in response to a sustained period of record low mortgage rates, enhancements in the Home Affordable Refinance Program, and increased volume ahead of the 10 basis point guarantee fee increase in April 2012. As a result, combined Enterprise MBS issuance share grew to 79% in the first quarter of 2012.

Credit Quality of New Single-Family Business

The quality of new business remained high in the first quarter of 2012, as evidenced by average FICO credit scores around the 760 range. Both Enterprises have experienced an increase in new business with LTVs greater than 90 percent. This is primarily due to activity related to the Enterprises' refinance programs (including the Home Affordable Refinance Program) that support improving the housing market.

Capital

Combined Treasury support as a result of poor financial performance fell to a total of \$19 million in the first quarter of 2012, all of which pertains to Freddie Mac. Losses in the Single-Family Credit Guarantee segment declined sizably, particularly at Fannie Mae, as a result of lower provisions for credit losses. The Investments segment results continued to be positive in the first quarter of 2012 driven by low funding costs as a result of the low interest rate environment. The Single-Family Credit Guarantee segment and senior preferred dividends have been the main drivers of charges against capital since the end of 2007.

Single-Family Credit Guarantee Segment Results

Credit-related expenses continued to drive Single-Family Credit Guarantee segment financial results for the Enterprises. However, losses decreased in the first quarter of 2012, driven by lower provisions for credit losses, particularly at Fannie Mae. Lower provisions for credit losses were driven by improvement in both REO disposition values and early stage delinquencies, as well as, the continued decrease in the seriously delinquent loan population.

Investments and Capital Markets Segment Results

The Investments and Capital Markets segment was a positive contributor to capital in the first quarter of 2012, as both Enterprises continued to benefit from low funding costs as a result of the low interest rate environment.

Loss Mitigation Activity

Since conservatorship, the Enterprises have completed approximately 2.3 million foreclosure prevention actions. Half of these actions were permanent loan modifications.

Projections of Financial Performance

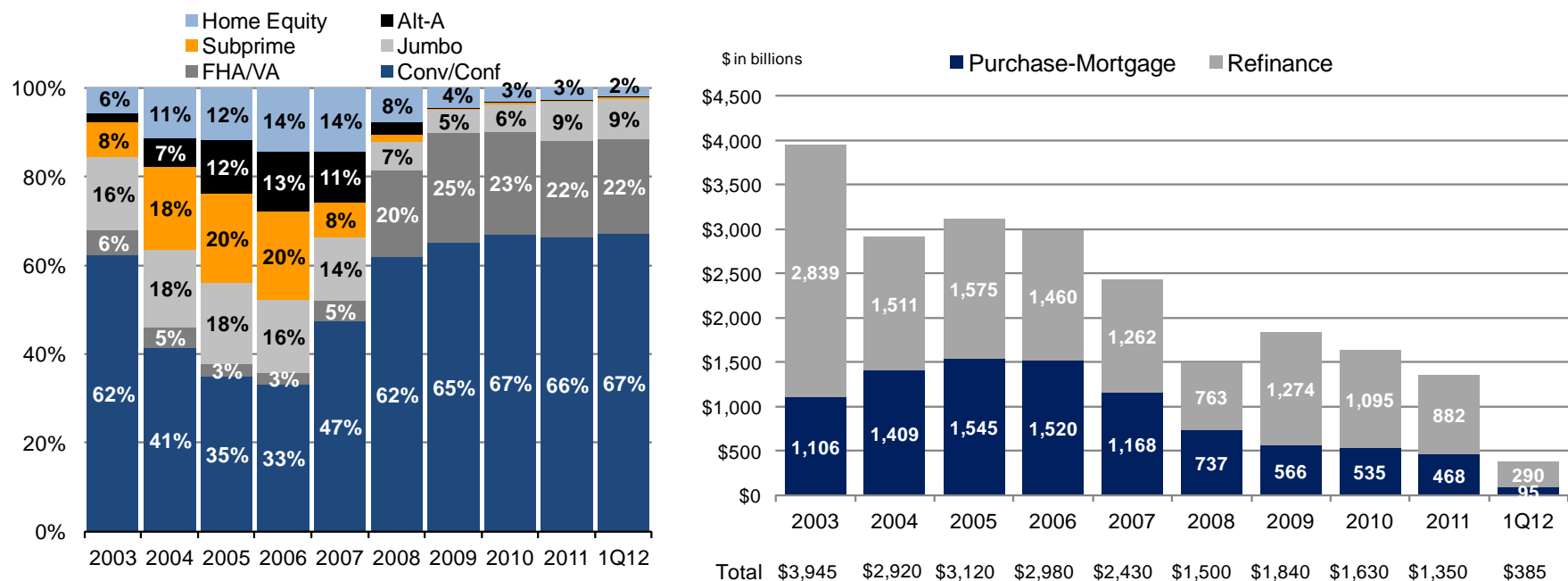
The projected combined Treasury draws for the second half of 2011 and the first quarter of 2012 ranged from \$33 billion to \$74 billion. This compares to an actual combined draw of \$19 billion. The primary driver of the difference between actual and projected performance was lower than projected provisions for credit losses, particularly at Fannie Mae. Lower provisions for credit losses were mainly driven by an improved book profile reflected in lower delinquencies, combined with improvement in REO disposition values.

1 Mortgage Markets and the Enterprises' Market Presence

1.1 Primary Mortgage Market Trends—Mortgage Originations

- Seventy-five percent of all mortgage originations in the first quarter of 2012 were due to refinance volume. Refinance volumes surged during the first quarter of 2012, in response to a sustained period of record low mortgage rates, enhancements to the Home Affordable Refinance Program (HARP), and increased volume ahead of the 10 basis point guarantee fee increase in April 2012.

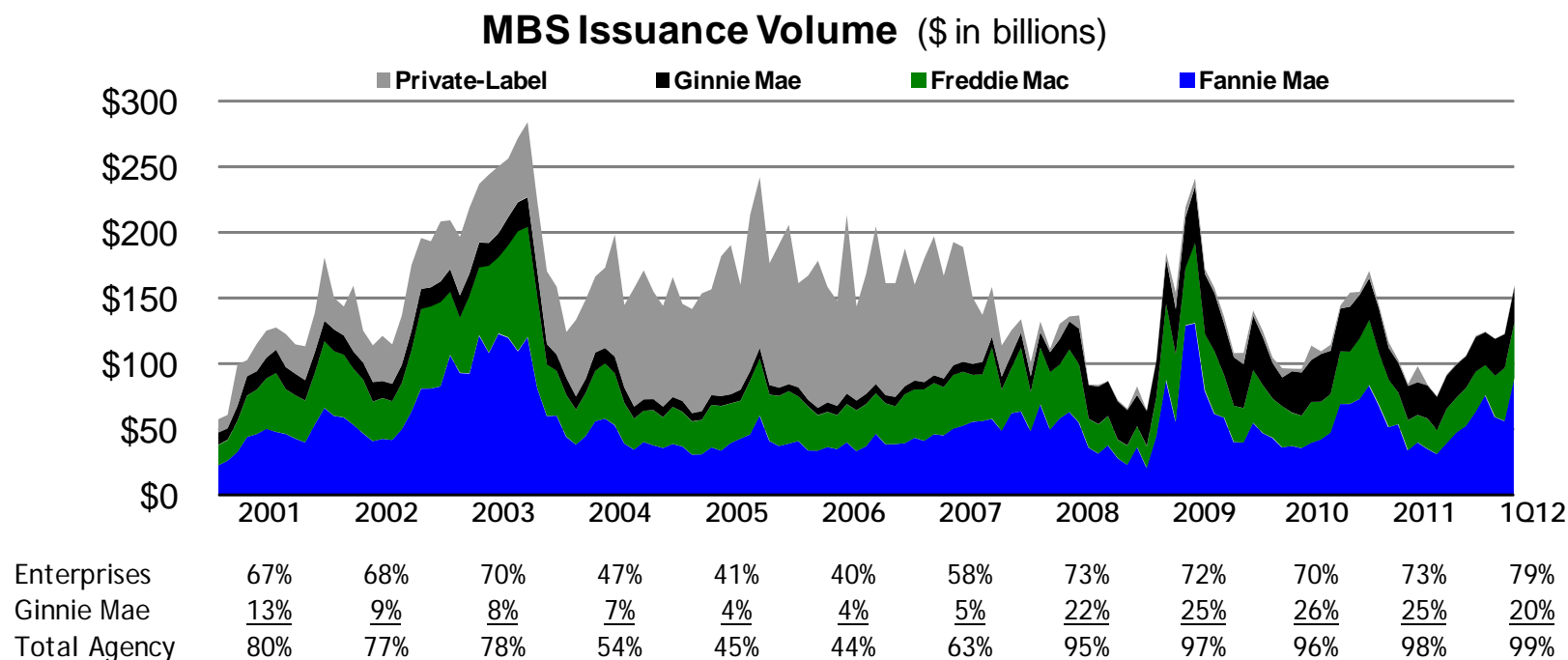
Figure 1.1 Mortgage Originations by Product Type (\$ in billions)



Source:
Inside Mortgage Finance

1.2 Secondary Mortgage Market Trends—Mortgage-Backed Securities Issued

- The Enterprises' market share of mortgage-backed securities (MBS) issuances grew to 79 percent in the first quarter of 2012, as sellers delivered heavily ahead of the expected 10 basis point guarantee fee increase in April 2012. Ginnie Mae's market share fell to 20 percent. The Enterprises and Ginnie Mae continued to account for almost all issuances of mortgage-backed securities.

Figure 1.2 Enterprises' Market Share – MBS Issuance VolumeSources:

Inside Mortgage Finance, Inside MBS & ABS, Enterprises' Monthly Volume Summaries.

Issuance figures exclude MBS issued backed by assets previously held in the Enterprises' portfolios.

2 Credit Quality of New Single-Family Business

2.1 Credit Characteristics of the Enterprises' New Single-Family Business

- The credit quality of new Single-Family business remained high in the first quarter of 2012. Purchases of non-traditional and higher-risk mortgages were very low and the average FICO credit score remained around the 760 range at both Enterprises. Average loan-to-value ratios (LTVs) were near 70 percent at both Enterprises. An increase in the percentage of new business with LTVs greater than 90 percent primarily relates to the Enterprises' refinance programs, including the Home Affordable Refinance Program.

Figure 2.1 Characteristics of Single-Family Mortgage Acquisitions

(Categories overlap and are not additive)

Percent of New Single-Family Business ¹	Fannie Mae							Freddie Mac						
	2006	2007	2008	2009	2010	2011	1Q12	2006	2007	2008	2009	2010	2011	1Q12
Alt-A ²	22%	17%	3%	0%	1%	1%	1%	18%	22%	7%	0%	0%	0%	0%
Interest-Only	15%	15%	6%	1%	1%	1%	0%	17%	21%	6%	0%	0%	0%	0%
Credit Score <620	6%	6%	3%	0%	0%	0%	1%	5%	6%	3%	1%	1%	1%	1%
LTV >90 Percent	10%	16%	10%	4%	7%	9%	11%	6%	11%	9%	4%	9%	11%	14%
Average LTV	73%	75%	72%	67%	68%	69%	70%	73%	74%	71%	67%	69%	70%	71%
Average Credit Score	716	716	738	761	762	762	763	720	718	734	756	755	755	758

Notes

¹ New business is defined as issuance of MBS/PC plus purchases of whole loans and does not include purchases of mortgage-related securities.

² Refer to sources for Alt-A definitions. Freddie Mac's 2010 figures include Alt-A purchases of \$1.5 billion due to a long-term standby commitment termination and a subsequent PC issuance. There was no change to the Alt-A exposure on these mortgages as a result of these transactions. Fannie Mae newly originated Alt-A loans acquired since 2009 consist of the refinancing of existing loans.

Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.2 Performance of Non-Traditional and Higher-Risk Mortgages (mostly purchased pre-conservatorship)

- Single-family serious delinquency rates remained high for the Enterprises' Single-Family credit guarantee portfolios; however, serious delinquency rates declined in the first quarter of 2012 for all product categories as delinquent loans were resolved through loss mitigation activities or foreclosure, and new loans with stronger credit profiles were acquired. Non-traditional and higher-risk mortgages, which account for a relatively small portion of the credit guarantee portfolios, continue to show substantially higher serious delinquency rates than traditional mortgages.

Figure 2.2 Single-Family Serious Delinquency Rates

	Fannie Mae						Freddie Mac					
	4Q07	4Q08	4Q09	4Q10	4Q11	1Q12	4Q07	4Q08	4Q09	4Q10	4Q11	1Q12
Product Type¹												
Alt-A	2.2%	7.0%	15.6%	13.9%	12.4%	12.0%	1.9%	5.6%	12.3%	12.2%	11.9%	11.8%
Interest-Only	2.0%	8.4%	20.2%	17.9%	15.3%	14.7%	2.0%	7.6%	17.6%	18.4%	17.6%	17.2%
Credit Score												
<620	4.7%	9.0%	18.2%	14.6%	13.5%	12.6%	3.4%	7.8%	14.9%	13.9%	12.9%	12.6%
Loan-to-Value Ratio												
>90 Percent	3.0%	6.3%	13.1%	10.0%	8.1%	7.2%	1.9%	4.8%	9.1%	7.8%	6.7%	6.3%
Risk-Layering												
Credit score <620 & LTV >90 Percent	8.6%	16.0%	28.0%	21.4%	18.7%	16.8%	5.4%	11.5%	19.0%	17.1%	15.4%	14.7%
Total Single-Family	1.0%	2.4%	5.4%	4.5%	3.9%	3.7%	0.7%	1.8%	4.0%	3.8%	3.6%	3.5%

Notes

¹ Loans with multiple product features may be in more than one category. Refer to sources for Alt-A definition.

Sources:

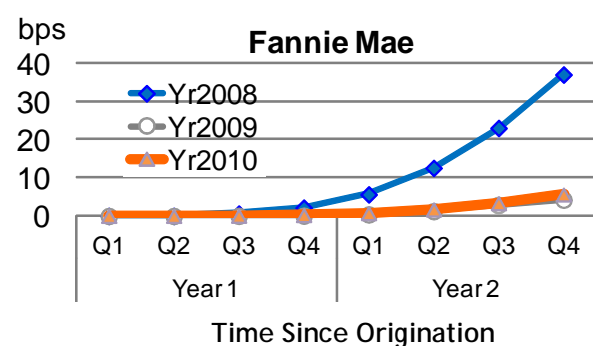
Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

Serious Delinquency - All loans in the process of foreclosure plus loans that are three or more payments delinquent (including loans in the process of bankruptcy).

2.3 Performance of Post-Conservatorship Business

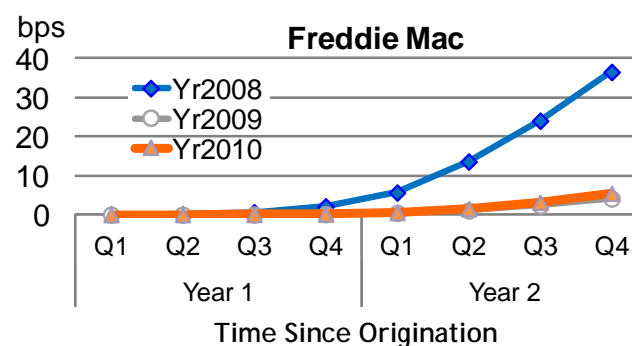
- While not necessarily indicative of the ultimate performance, the improved credit characteristics of the new post-conservatorship business is reflected in substantially lower cumulative default rates for the 2009 and 2010 vintages compared to the years leading up to conservatorship.

Figure 2.3 Cumulative Default Rate by Origination Year



Fannie Mae¹

Vintage	Yr1Q4	Yr 2Q4
2002	0.4	9.5
2003	0.4	7.1
2004	0.7	11.6
2005	0.7	14.0
2006	1.3	37.4
2007	3.0	78.9
2008	2.2	37.1
2009	0.1	4.3
2010	0.2	5.6
2011	0.3	NA



Freddie Mac²

Vintage	Yr1Q4	Yr2Q4
2002	0.3	7.7
2003	0.2	3.7
2004	0.4	5.2
2005	0.2	6.3
2006	0.6	25.2
2007	2.3	63.4
2008	2.1	36.4
2009	0.1	4.0
2010	0.1	5.4
2011	0.2	NA

Notes

¹ Defaults include loan liquidations other than through voluntary pay-off or repurchase by lenders and include loan foreclosures, preforeclosure sales, sales to third parties and deeds-in-lieu of foreclosure. Cumulative Default Rate is the total number of single-family conventional loans in the guarantee book of business originated in the identified year that have defaulted, divided by the total number of single-family conventional loans in Fannie Mae's guarantee book of business originated in the identified year.

² Rates are calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, divided by the number of loans in Freddie Mac's single-family credit guarantee portfolio originated in the identified year.

Source:

Enterprises' quarterly credit supplements.

3. Capital

3.1 Capital Changes: January 1, 2008 – March 31, 2012

- At the end of 2007, the Enterprises had \$71 billion of combined capital. From the end of 2007 through the first quarter of 2012, the Enterprises' combined charges against capital have totaled \$265 billion, requiring Treasury support of approximately \$187 billion through draws under the Senior Preferred Stock Purchase Agreements. The Single-Family Credit Guarantee segment has been the largest contributor to charges against capital, accounting for \$218 billion, or 82 percent, of capital reduction to date. Senior preferred dividends on Treasury draws accounted for \$41 billion, or 15 percent, of capital reduction.

Figure 3.1 Capital Changes: January 1, 2008 – March 31, 2012 (\$ in billions)

	Fannie Mae		Freddie Mac		Combined	
Beginning Capital ¹	\$44		\$27		\$71	
Equity Issuance ²	<u>7</u>		<u>0</u>		<u>7</u>	
Available Capital	\$51		\$27		\$78	
Capital Change						
Single-Family Comprehensive Income (Loss) ³	(\$143)	85%	(\$75)	77%	(\$218)	82%
Multifamily Comprehensive Income (Loss) ^{3,4}	(5)	3%	16	-16%	10	-4%
Investments Comprehensive Income (Loss) ^{3,4}	14	-8%	(5)	6%	8	-3%
Consolidation Accounting Adjustment	3	-2%	(12)	12%	(8)	3%
Other	(14)	8%	(3)	3%	(17)	6%
Senior Preferred dividends	<u>(23)</u>	14%	<u>(18)</u>	19%	<u>(41)</u>	15%
Total Capital Change ⁵	(\$167)	100%	(\$98)	100%	(\$265)	100%
Capital surplus (deficit)	(\$116)		(\$71)		(\$187)	
Treasury Senior Preferred draw ⁶	\$116.1		\$71.3		\$187.5	

Notes

Totals may not sum due to rounding.

¹ Capital is defined as stockholders' equity.

² Fannie Mae's figure includes common and preferred stock issuance pre-conservatorship.

³ Segment comprehensive income (loss) represents net income (loss) plus total other comprehensive income (loss) by segment.

⁴ Freddie Mac includes net interest income on investments in multifamily loans, net interest income on commercial mortgage-backed securities, and non-interest rate risk-related unrealized gains (losses) on commercial mortgage-backed securities in Multifamily Comprehensive Income (Loss), while Fannie Mae includes these items in Investments comprehensive income. Investments comprehensive income includes the impact of accounting changes for security impairments.

⁵ Included in total capital change for both Enterprises are losses attributable to the writedown of low income housing tax credits (LIHTC) investments to zero in the fourth quarter of 2009. The writedown of these LIHTC losses for Fannie Mae and Freddie Mac were \$5 billion and \$3 billion, respectively, and are included in Other. The establishment of a deferred tax asset valuation allowance, which reduced capital by \$21 billion for Fannie Mae and \$14 billion for Freddie Mac in 2008, is also contributing to the total capital change (valuation allowance has been allocated across segments).

⁶ Total draws include amounts relating to the first quarter of 2012 to be received in the second quarter of 2012.

Sources:

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods.

Freddie Mac's 2008 and 2009 comprehensive income (loss) by segment reflect revised methodology effective January 1, 2010.

3.2 Capital Changes: First Quarter 2012

- During the first quarter of 2012, both Enterprises generated capital from the Investments segment and the Multifamily segment. At Fannie Mae, positive contributions to capital from these segments more than offset losses from the Single-Family Credit Guarantee segment, and senior preferred dividends. Freddie Mac ended the quarter with a capital deficit of \$18 million.

Figure 3.2 Capital Changes: December 31, 2011 – March 31, 2012 (\$ in billions)

	Fannie Mae	Freddie Mac	Combined	Notes
Available Capital ¹	\$0	\$0	\$0	Totals may not sum due to rounding.
Capital Change				¹ Capital is defined as stockholders' equity. Available capital is defined as beginning capital plus Treasury draw related to prior quarter's deficit.
Single-Family Comprehensive Income (Loss) ²	(\$1)	(\$2)	(\$3)	² Represents net income (loss) plus total other comprehensive income (loss) by segment. Freddie Mac includes net interest income on investments in multifamily loans, net interest income on commercial mortgage-backed securities, and non-interest rate risk-related unrealized gains (losses) on commercial mortgage-backed securities in Multifamily comprehensive income (loss), while Fannie Mae includes these items in Investments comprehensive income (loss).
Multifamily Comprehensive Income (Loss) ²	0	2	2	³ Reflects requested Treasury draws related to current quarter deficit, to be received during the next quarter.
Investments Comprehensive Income (Loss) ²	5	2	7	Enterprises' draw requests are rounded up to the nearest \$1 million.
Other	(1)	0	(1)	
Capital increase (decrease) pre-dividends	\$3	\$2	\$5	
Senior Preferred dividends	(3)	(2)	(5)	
Total Capital Change	\$0	(\$0)	\$0	
Capital Surplus (Deficit)	\$0	(\$0)	\$0	
Treasury Senior Preferred draw ³	-	\$0.0	\$0.0	

Sources:

Fannie Mae and Freddie Mac SEC disclosures for the quarter ended March 31, 2012.

4. Single-Family Credit Guarantee Segment Results**4.1 Single-Family Credit Guarantee Segment Results**

- Losses from the Single-Family Credit Guarantee segment declined in the first quarter of 2012, as a result of lower credit-related expenses, notably the provision for credit losses. Provisions for credit losses decreased at both Enterprises driven by improvement in REO disposition values, improvement in early stage delinquencies, and the continued decrease in the seriously delinquent loan population.

Figure 4.1 Single-Family Credit Guarantee Segment Results (\$ in billions)

	Fannie Mae						Freddie Mac						Combined 2008 - 1Q12	Notes
	2008	2009	2010	2011	1Q12	Total	2008	2009	2010	2011	1Q12	Total	1Q12	Totals may not sum due to rounding.
Revenue ¹	\$9	\$9	\$2	\$6	\$2	\$28	\$5	\$4	\$5	\$5	\$1	\$20	\$48	¹ Consists of guarantee fee income, trust management income, net interest income, and other income. Guarantee fee revenue of \$1.9 billion for Fannie Mae in the first quarter of 2012 was offset by net interest expense of \$0.4 billion primarily related to interest income not recognized for non-accrual loans.
Provision for credit losses ²	(26)	(50)	(25)	(26)	(2)	(129)	(16)	(29)	(19)	(12)	(2)	(79)	(208)	² The provision for credit losses is the recognition of estimated incurred losses and increases the loan loss reserve. Fannie Mae's figures have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts.
Foreclosed Property Expenses	(2)	(1)	(2)	(1)	(0)	(5)	(1)	(0)	(1)	(1)	(0)	(3)	(8)	³ Losses on credit-impaired loans acquired from MBS/PC Trusts.
Credit-related expenses	(28)	(51)	(26)	(27)	(2)	(134)	(17)	(29)	(19)	(13)	(2)	(82)	(216)	⁴ Consists of investment gains (losses), fair value losses (Fannie Mae), administrative expenses, other expenses, and at Freddie Mac, segment adjustments.
SOP 03-3 Losses ³	(2)	(20)	(0)	(0)	(0)	(23)	(2)	(5)	(0)	(0)	(0)	(6)	(29)	⁵ Represents segment earnings (loss) and, for periods after 2008, total comprehensive income (loss), net of taxes, for the Single-Family Credit Guarantee Segment.
Other expenses ⁴	(2)	(3)	(2)	(3)	(1)	(10)	(1)	(1)	(2)	(2)	(0)	(7)	(17)	
Pre-tax income (loss)	(22)	(65)	(27)	(24)	(1)	(140)	(15)	(31)	(17)	(10)	(2)	(74)	(214)	
(Provision) benefit for taxes	(5)	1	0	0	0	(3)	(5)	4	1	(0)	(0)	(1)	(4)	
Net income (loss)	(\$27)	(\$64)	(\$27)	(\$24)	(\$1)	(\$143)	(\$20)	(\$27)	(\$16)	(\$10)	(\$2)	(\$75)	(\$218)	
Other Comprehensive Income	-	0	0	-	-	0	-	0	0	0	(0)	0	0	
Total Comprehensive Income (Loss) ⁵	(\$27)	(\$64)	(\$27)	(\$24)	(\$1)	(\$143)	(\$20)	(\$27)	(\$16)	(\$10)	(\$2)	(\$75)	(\$218)	

Sources:

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised. Freddie Mac segment comprehensive income (loss) for 2008 and 2009 reflect revised methodology effective January 1, 2010. Enterprise segment comprehensive income (loss) since 2010 is not comparable with prior periods due to the adoption of accounting standards for consolidations, effective January 1, 2010.

4.2 Loan Loss Reserves

- Loan loss reserves decreased at both Enterprises during the first quarter of 2012, but remain high. The decrease in loan loss reserves was driven by the decrease in the provision for credit losses, resulting in charge-offs exceeding the provision for credit losses at both Enterprises for the quarter. Differences in the magnitude of loan loss reserves stemmed from differences in the size and credit quality of the Enterprises' single-family credit guarantee portfolios. Fannie Mae's single-family credit guarantee portfolio is larger than Freddie Mac's and has higher serious delinquency rates.

Figure 4.2 Loan Loss Reserves (\$ in billions)

	Fannie Mae						Freddie Mac						Notes
	2008	2009	2010	2011	1Q12	Total	2008	2009	2010	2011	1Q12	Total	
Single-Family Loss Reserve													
Beginning balance ¹	\$3	\$24	\$62	\$60	\$72		\$3	\$15	\$33	\$39	\$39		Totals may not sum due to rounding. ¹ Fannie Mae's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and allowance for preforeclosure property taxes and insurance receivable. Freddie Mac's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and forgone interest on loans placed on non-accrual status. ² Freddie Mac's figures represent Segment Earnings provision for credit losses, which is generally higher than that recorded under GAAP, primarily due to recognized provision associated with forgone interest income on loans placed on non-accrual status, which is not recognized under GAAP. ³ Fannie Mae's provision for credit losses has been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts. Additionally, the effect of losses from credit-impaired loans acquired from MBS trusts on charge-offs and foreclosed property expense has been reflected as an adjustment to total credit losses and charge-offs, net. ⁴ Freddie Mac's figures include charge-offs related to certain loans purchased under financial guarantees.
Provision for credit losses ^{2,3}	26	50	25	26	2	129	16	29	19	12	2	79	
Charge-offs, net ³	(5)	(13)	(21)	(18)	(5)	(61)	(2)	(7)	(13)	(12)	(3)	(38)	
Adoption of Accounting Standards ¹	-	-	(11)	-	-		-	-	(0)	-	-		
Other	<u>0</u>	<u>0</u>	<u>5</u>	<u>3</u>	<u>1</u>		<u>(1)</u>	<u>(4)</u>	<u>0</u>	<u>(1)</u>	<u>(0)</u>		
Ending balance ¹	\$24	\$62	\$60	\$72	\$70		\$15	\$33	\$39	\$39	\$38		
Credit Losses - Single-Family													
Charge-offs ³	\$5	\$13	\$21	\$18	\$5	\$61	\$2	\$7	\$13	\$12	\$3	\$38	
Other ⁴	0	0	0	0	0	0	0	0	1	0	0	2	
Foreclosed Property Expense	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>5</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>3</u>	
Total ³	\$6	\$13	\$23	\$18	\$5	\$66	\$4	\$8	\$14	\$13	\$3	\$42	

Sources:

SEC disclosures for the relevant time periods.

4.3 Credit Losses

- Non-traditional and higher-risk mortgages concentrated in the 2006 and 2007 vintages, and mortgages originated in California, Florida, Arizona and Nevada continue to account for a disproportionate share of credit losses (charge-offs and foreclosed property expenses). However, the proportion of losses coming from non-traditional products continued to decline in the first quarter of 2012 as these vintages aged.

Figure 4.3 Credit Losses *(Percent of total credit losses)*

	Fannie Mae						Freddie Mac						Notes
	% of UPB as of Dec 31, 2008 ¹	2008	2009	2010	2011	1Q12	% of UPB as of Dec 31, 2008 ¹	2008	2009	2010	2011	1Q12	
by State													
California	16%	25%	24%	23%	27%	20%	14%	30%	32%	26%	29%	24%	
Florida	7%	11%	16%	18%	11%	20%	7%	10%	15%	19%	13%	16%	
Arizona	3%	8%	11%	10%	12%	8%	3%	9%	11%	11%	11%	8%	
Nevada	1%	5%	7%	6%	8%	5%	1%	4%	6%	6%	7%	7%	
by Product²													
Alt-A	11%	46%	40%	33%	27%	25%	10%	50%	44%	37%	28%	24%	
Interest-Only	8%	34%	33%	29%	26%	23%	9%	50%	47%	37%	29%	24%	
by Vintage													
2006	14%	35%	31%	29%	28%	26%	15%	41%	35%	30%	28%	25%	
2007	20%	28%	36%	36%	30%	35%	19%	25%	36%	34%	36%	37%	
2008	16%	1%	5%	7%	6%	8%	15%	0%	5%	7%	8%	9%	
2009	N/A	N/A	0%	0%	2%	2%	N/A	N/A	0%	0%	1%	2%	
2010	N/A	N/A	N/A	0%	1%	1%	N/A	N/A	N/A	0%	0%	1%	

Sources:

Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

Notes

¹ Represents each category's share of the respective Enterprise's single-family book of business, which is based on the unpaid principal balance of all single-family unsecuritized mortgages held by the Enterprises and those underlying Freddie Mac mortgage-related securities, or covered by the Enterprise's other guarantee commitments.

² Product categories overlap.

5. Investments and Capital Markets Segment Results**5.1 Investments and Capital Markets Segment Results**

- In the first quarter of 2012, the Investments and Capital Markets segment was a positive contributor to capital as both Enterprises continued to benefit from low funding costs as a result of the low interest rate environment. Gains and losses on derivatives and trading securities during the quarter were muted.

Figure 5.1 Investments and Capital Markets Segment Results (\$ in billions)

	Fannie Mae						Freddie Mac						Combined	Notes
	2008	2009	2010	2011	1Q12	Total	2008	2009	2010	2011	1Q12	Total	2008 - 1Q12	
Revenue ¹	\$8	\$13	\$13	\$13	\$3	\$50	\$3	\$8	\$6	\$7	\$2	\$26	\$77	Totals may not sum due to rounding.
Derivatives gains (losses)	(15)	(6)	(3)	(7)	(0)	(31)	(13)	5	(2)	(4)	0	(13)	(45)	¹ Consists of guarantee fee expense, trust management income, net interest income, and other income.
Trading gains (losses)	(7)	4	3	0	0	0	1	5	(1)	(1)	(0)	3	3	² Figures consist of debt extinguishment losses, debt foreign exchange gains (losses), debt fair-value losses, investment gains (losses), and hedged mortgage assets gains, net.
Other gains (losses) ²	2	1	4	3	1	11	2	(0)	1	2	0	5	16	³ Consists of administrative expenses, other expenses, and at Freddie Mac, segment adjustments.
Other-than-temporary impairments	(7)	(10)	(1)	(0)	(0)	(18)	(17)	(10)	(4)	(2)	(0)	(33)	(51)	⁴ Includes extraordinary losses /noncontrolling interest.
Other expenses ³	(1)	(1)	(0)	(1)	(0)	(2)	(2)	(1)	1	0	0	(1)	(3)	⁵ Amount for 2008 includes consolidated changes in unrealized gains (losses) on available for sale securities, net of taxes. Effective April 2009, includes adjustments for other-than-temporary impairments, net of taxes, included in accumulated other comprehensive income due to a change in accounting standards for impairments. At Freddie Mac, amount also includes the change in unrealized gains (losses), net of taxes, related to cash flow hedge relationships.
Pre-tax income (loss)	(21)	1	16	9	4	10	(26)	7	1	3	2	(13)	(4)	
(Provision) benefit for taxes ⁴	(9)	(0)	0	0	-	(9)	(2)	(1)	0	0	0	(2)	(11)	
Net income (loss)	(\$29)	\$1	\$16	\$9	\$4	\$1	(\$28)	\$6	\$1	\$3	\$2	(\$15)	(\$14)	
Unrealized gains (losses) on AFS ⁵	(6)	11	4	1	0	10	(20)	11	10	3	0	5	15	
Accounting change for Impairments	-	3	-	-	-	3	0	5	-	-	-	5	8	
Total Comprehensive Income (Loss)	(\$35)	\$15	\$20	\$10	\$5	\$14	(\$48)	\$23	\$11	\$6	\$2	(\$5)	\$8	

Sources:

Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods. Effective in the first quarter 2010, Fannie Mae changed the presentation of segment financial information; prior periods were not revised. Freddie Mac segment comprehensive income (loss) for 2008 and 2009 reflect revised methodology effective January 1, 2010. Enterprise segment comprehensive income (loss) for 2010 and 2011 is not comparable with prior periods due to the adoption of accounting standards for consolidations effective January 1, 2010.

5.2 Security Impairments

- Freddie Mac's non-agency portfolio is larger than Fannie Mae's, generally causing higher levels of security impairments. A substantial portion of Freddie Mac's security impairments during the first quarter of 2012 was from 2006 and 2007 vintage subprime securities.

Figure 5.2 Security Impairments (\$ in billions)

Fannie Mae	2008			2009			2010			2011			1Q12			Total 2008-1Q12	Notes
	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total		
Vintage ¹																	
Alt-A/Option																	
ARM Alt-A	\$3.0	\$1.8	\$4.8	\$1.7	\$2.3	\$4.0	\$0.2	\$0.1	\$0.3	\$0.2	\$0.3	\$0.6	\$0.0	\$0.0	\$0.0	\$9.7	<p>Totals may not sum due to rounding.</p> <p>¹ Vintage of private-label securities is based on security issue date.</p> <p>² The adoption of an accounting standard for impairments in April 2009 required the Enterprises to begin recognizing only the credit portion of impairments in their statements of income and comprehensive income. This accounting standard did not require the Enterprises to revise previously recorded amounts in their statements of income and comprehensive income but did result in an equity increase of \$5 billion and \$3 billion for Freddie Mac and Fannie Mae, respectively, which is not reflected in Figure 5.2. For the full year of 2008 and a portion of 2009, amounts include both credit and non-credit-related security impairments.</p>
Subprime	1.9	-	1.9	5.6	0.1	5.7	0.4	0.0	0.4	(0.3)	(0.0)	(0.3)	0.0	0.0	0.0	7.7	
Other	0.0	0.2	0.2	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	
Total ²	\$4.9	\$2.0	\$7.0	\$7.3	\$2.6	\$9.9	\$0.6	\$0.2	\$0.7	(\$0.1)	\$0.4	\$0.3	\$0.0	\$0.0	\$0.1	\$17.9	
Freddie Mac	2008			2009			2010			2011			1Q12			Total 2008-1Q12	
	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total		
Vintage ¹																	
Alt-A	\$2.1	\$1.8	\$4.0	\$0.9	\$0.8	\$1.7	\$0.5	\$0.2	\$0.7	\$0.1	\$0.1	\$0.2	\$0.0	\$0.0	\$0.1	\$6.6	
Subprime	3.4	0.2	3.6	6.4	0.1	6.5	1.7	0.0	1.8	1.3	0.0	1.3	0.4	0.0	0.4	13.7	
CMBS	-	-	-	0.1	0.0	0.1	0.1	0.0	0.1	0.3	0.1	0.4	0.0	0.0	0.0	0.6	
Option ARM	6.0	1.6	7.6	1.4	0.4	1.7	1.2	0.2	1.4	0.3	0.1	0.4	0.0	0.0	0.0	11.2	
Other	1.1	0.4	1.4	0.8	0.1	0.9	0.3	0.1	0.3	0.0	0.0	0.1	0.0	0.0	0.0	2.7	
Total ²	\$12.6	\$4.0	\$16.6	\$9.6	\$1.5	\$11.0	\$3.8	\$0.5	\$4.3	\$2.0	\$0.3	\$2.3	\$0.5	\$0.1	\$0.6	\$34.7	

Sources:

Fannie Mae and Freddie Mac management reports.

6. Loss Mitigation Activity

- The Enterprises have traditionally worked with delinquent borrowers to mitigate credit losses in situations where the borrower demonstrates the willingness and ability to cure the delinquency. Loss mitigation actions include home retention actions (loan modifications, repayment plans and forbearance plans), and home forfeiture actions (short sales and deeds-in-lieu).

The Enterprises have completed approximately 2.3 million foreclosure prevention actions since the start of conservatorship in September 2008. Half of these actions have been permanent loan modifications.

More information on the Enterprises' loss mitigation activities can be found in [FHFA's First Quarter 2012 Foreclosure Prevention Report](#).

Figure 6 Enterprises' Completed Foreclosure Prevention Actions

	Full Year 2009	Full Year 2010	Full Year 2011	1Q12	Conservatorship to Date ¹
Home Retention Actions					
Repayment Plans	142,360	185,954	181,558	44,636	567,817
Forbearance Plans	25,227	63,024	34,423	6,248	131,038
Charge-offs-in-lieu	2,247	3,118	2,263	507	8,408
HomeSaver Advance (<i>Fannie</i>)	39,199	5,191	-	-	70,178
Loan Modifications	<u>163,647</u>	<u>575,022</u>	<u>322,108</u>	<u>60,348</u>	<u>1,144,902</u>
Total	372,680	832,309	540,352	111,739	1,922,343
Nonforeclosure - Home Forfeiture Actions					
Short Sales	55,447	107,953	115,237	30,601	315,430
Deeds-in-lieu	<u>2,971</u>	<u>6,043</u>	<u>10,231</u>	<u>3,759</u>	<u>23,544</u>
Total	<u>58,418</u>	<u>113,996</u>	<u>125,468</u>	<u>34,360</u>	<u>338,974</u>
Total Foreclosure Prevention Actions	431,098	946,305	665,820	146,099	2,261,317

¹ Since the first full quarter in conservatorship (4Q08).

7. Comparison of Actual Results to Projections of the Enterprises' Financial Performance

7.1 Comparison of Actual Results to Projections of the Enterprises' Financial Performance

- FHFA published updated projections of the Enterprises' financial performance in October 2011. The purpose and approach of these projections can be found in [FHFA's Projections of the Enterprises' Financial Performance, October 2011](#). October 2011 projections are not expected outcomes, but rather modeled projections in response to "what if" exercises based on assumptions about Enterprise operations, financial market conditions, and house prices. The combined projected Treasury draws for the Enterprises for the second half of 2011 and the first quarter of 2012 ranged from \$33 billion to \$74 billion. The actual combined Treasury draw for the second half of 2011 and the first quarter of 2012 was \$19 billion. The primary driver of the difference was lower than projected credit-related expenses at Fannie Mae, mostly due to a lower provision for credit losses. The main drivers of lower provisions for credit losses was an improved book profile reflected in lower delinquencies coupled with higher REO disposition values.

Figure 7.1 Actual versus Projected Treasury Draws through 1Q12 (\$ in billions)

	Cumulative Treasury Draw	Projected Draw through 1Q12 Scenario 1		Projected Draw through 1Q12 Scenario 2		Projected Draw through 1Q12 Scenario 3		Actual Draw through 1Q12	
	As of 6/30/2011	Additional Draw	Cumulative Draw as of 3/31/2012	Additional Draw	Cumulative Draw as of 3/31/2012	Additional Draw	Cumulative Draw as of 3/31/2012	Additional Draw	Cumulative Draw as of 3/31/2012
Fannie Mae	\$104	\$23	\$127	\$27	\$131	\$53	\$157	\$12	\$116
Freddie Mac	<u>65</u>	<u>9</u>	<u>75</u>	<u>10</u>	<u>76</u>	<u>20</u>	<u>86</u>	<u>6</u>	<u>71</u>
Total	\$169	\$33	\$202	\$37	\$206	\$74	\$243	\$19	\$187

Numbers may not foot due to rounding.

7.2 Impact of Actual Results on Future Projections of the Enterprises' Financial Performance

- Mortgage defaults pushed out to later periods could reduce projected losses if home prices improve or increase projected losses if home prices worsen.

The Enterprises' future financial performance is heavily dependent on the performance of the U.S. housing market. Trends observed in the second half of 2011 and the first half of 2012 should not be used to extrapolate future projections.