UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**	**1100 15th Street, NW** **Washington, DC 20005**	**800 232-6643**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*	*(Address of principal executive offices, including zip code)*	*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of June 30, 2020, there were 1,158,087,567 shares of common stock of the registrant outstanding.

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PART I—FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have 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 provided for the exercise of certain authorities by our Board of Directors. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

We do not know when or how the conservatorship will terminate, what further changes to our business will be made during or following conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated or whether we will continue to exist following conservatorship. The U.S. Department of the Treasury ("Treasury") released a plan in September 2019 for housing finance reform (the "Treasury plan") that includes recommendations related to ending our conservatorship. Congress and the Administration continue to consider options for reform of the housing finance system, including Fannie Mae. We are not permitted to retain more than $25 billion in capital reserves or to pay dividends or other distributions to stockholders other than Treasury. Our agreements with Treasury include covenants that significantly restrict our business activities. For additional information on the conservatorship, the uncertainty of our future, our agreements with Treasury, and recent developments relating to housing finance reform, see "Business—Conservatorship, Treasury Agreements and Housing Finance Reform" in our Form 10-K for the year ended December 31, 2019 ("2019 Form 10-K"), "Risk Factors" in our 2019 Form 10-K and in this report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations ('MD&A')—Legislation and Regulation" in this report.

You should read this MD&A in conjunction with our unaudited condensed consolidated financial statements and related notes in this report and the more detailed information in our 2019 Form 10-K. You can find a "Glossary of Terms Used in This Report" in our 2019 Form 10-K.

Forward-looking statements in this report are based on management's current expectations and are subject to significant uncertainties and changes in circumstances, as we describe in "Forward-Looking Statements." Future events and our future results may differ materially from those reflected in our forward-looking statements due to a variety of factors, including those discussed in "Risk Factors" and elsewhere in this report and in our 2019 Form 10-K.

Introduction

Fannie Mae is a leading source of financing for mortgages in the United States. Our revenues are primarily driven by guaranty fees we receive for managing the credit risk on loans underlying the mortgage-backed securities we issue. Our mission is to provide a stable source of liquidity to support housing in the U.S. for low- and moderate-income borrowers and renters. We operate in the secondary mortgage market, primarily working with lenders, who originate loans to borrowers. We do not originate loans or lend money directly to borrowers in the primary mortgage market. Instead, we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee (which we refer to as Fannie Mae MBS or our MBS); purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date; manage mortgage credit risk; and engage in other activities that support access to credit and the supply of affordable housing.

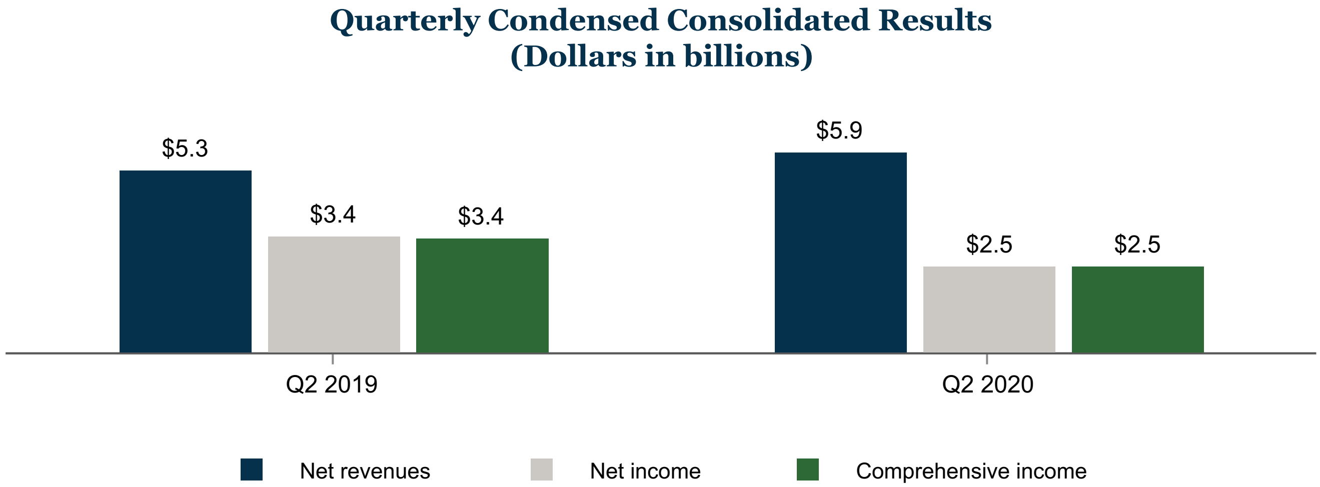
Through our single-family and multifamily business segments, we provided $575.4 billion in liquidity to the mortgage market in the first half of 2020, which enabled the financing of approximately 2.3 million home purchases, refinancings or rental units.

Fannie Mae Provided $575.4 Billion in Liquidity in the First Half of 2020

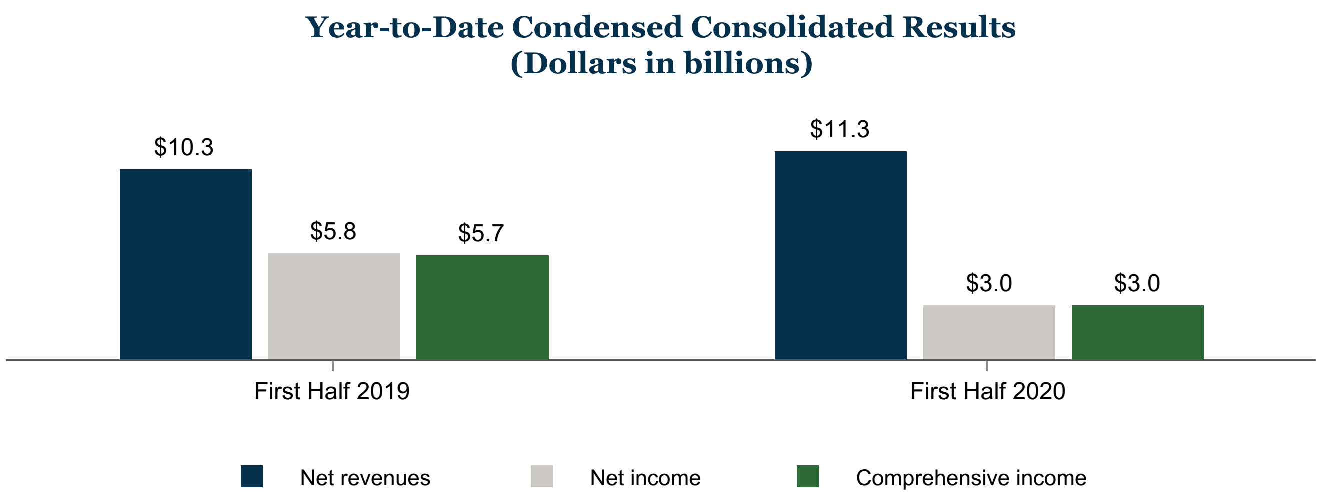
Unpaid Principal Balance	Units
$161.0B	593K Single-Family Home Purchases
$380.7B	1.3M Single-Family Refinancings
$33.7B	373K Multifamily Rental Units

Executive Summary

Summary of Our Financial Performance



The decrease in our net income in the second quarter of 2020, compared with the second quarter of 2019, was primarily driven by a shift from credit-related income to credit-related expense due to the economic dislocation caused by the COVID-19 pandemic, partially offset by an increase in net interest income due to higher loan prepayments as a result of the historically low interest rate environment. Our net interest income for the second quarter of 2020 was also impacted by an update to our application of our accounting policy for nonaccrual loans that allowed us to continue accruing interest income on delinquent loans that were current at March 1, 2020 and have been negatively impacted by the COVID-19 pandemic. As a result of this update, we recognized $1.5 billion in net interest income related to these loans in the second quarter. See "Consolidated Results of Operations" for more information on our financial results and "Note 1, Summary of Significant Accounting Policies—New Accounting Guidance" for more information about our policy for nonaccrual loans.



The decrease in our net income in the first half of 2020, compared with the first half of 2019, was primarily driven by a shift from credit-related income to credit-related expense driven by the economic dislocation caused by the COVID-19 pandemic, partially offset by an increase in net interest income due to higher loan prepayments as a result of the historically low interest rate environment. Our net interest income in the first half of 2020 was also impacted by our recognition in the second quarter of $1.5 billion in net interest income as a result of the update in our application of our policy for nonaccrual loans.

Net worth. Our net worth was $16.5 billion as of June 30, 2020. This amount reflects:

- our net worth of $14.6 billion as of December 31, 2019;
- a reduction in our net worth of $663 million in the first quarter of 2020 driven by a charge of $1.1 billion to retained earnings due to our implementation of Accounting Standards Update 2016-13, Financial Instruments—Credit Losses, Measurement of Credit Losses on Financial Instruments and related amendments (the "CECL standard") on January 1, 2020, partially offset by comprehensive income of $476 million in the first quarter of 2020; and
- our comprehensive income of $2.5 billion in the second quarter of 2020.

See "Note 1, Summary of Significant Accounting Policies—New Accounting Guidance—The Current Expected Credit Loss Standard" for further details.

Changes in our net worth can be significantly impacted by market conditions that affect our net interest income; fluctuations in the estimated fair value of our derivatives and other financial instruments that we mark to market through our earnings; developments that affect our loss reserves, such as changes in interest rates, home prices or accounting standards, or events such as natural disasters or pandemics; and other factors, as we discuss in "Risk Factors" and "Consolidated Results of Operations" in our 2019 Form 10-K and in this report.

Financial performance. Our long-term financial performance will depend on many factors, including:

- the size of and our share of the U.S. mortgage market, which in turn will depend upon macroeconomic factors such as population growth, household formation and housing supply;
- borrower performance and changes in macroeconomic factors, including home prices and interest rates; and
- actions by FHFA, the Administration and Congress relating to our business and housing finance reform, including the capital requirements that will be applicable to us, our ongoing financial obligations to Treasury, potential restrictions on our activities and our business footprint, our competitive environment, and actions we are required to take to support borrowers or the mortgage market.

Quarterly fluctuations in acquisition volumes, market share, guaranty fees, or acquisition credit characteristics in any one period typically have limited impact on the size and stability of our conventional guaranty book of business and the associated revenue, profitability, and credit quality. Only a portion of our guaranty book of business turns over each year. In eight of the past ten years, less than 20% of loans in our single-family conventional guaranty book of business held at year end had been originated during the year. Low mortgage rates have contributed to a significant amount of refinancing activity in the first six months of 2020. As a result, we acquired a higher-than-usual portion of our book of business during the first half of the year, with approximately 15% of the loans in our single-family conventional guaranty book of business as of June 30, 2020 originated in the first half of 2020. Because we expect mortgage rates to remain low through 2021, we anticipate a large and growing portion of our book of business, originated in a historically-low-interest-rate environment, will have less incentive to refinance, slowing the pace at which loans in our book of business turn over in future years. A slower turnover rate in our book of business would reduce our ability to increase our revenues by increasing guaranty fees, as any such change would take longer to meaningfully increase the average charged guaranty fee on our total book of business. See "Legislation and Regulation—Developments Relating to Exiting Conservatorship" for a discussion of how this may impact our efforts to generate capital and "Consolidated Results of Operations—Net Interest Income" for information on how this may affect amortization income we receive in future periods.

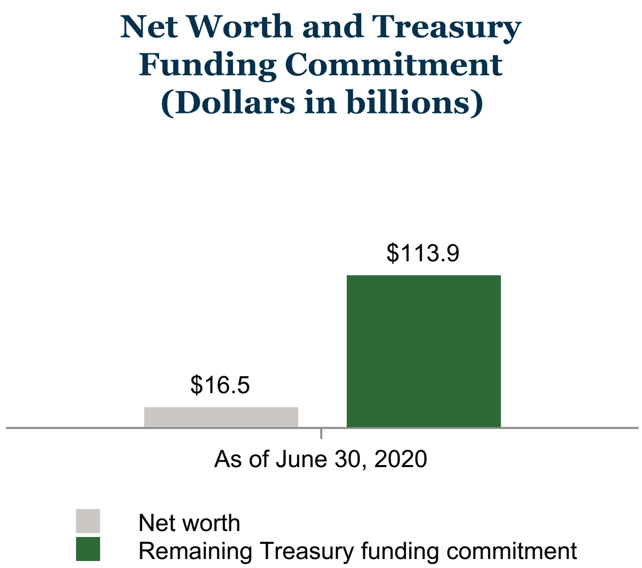
As described further in "COVID-19 Impact" and "Risk Factors," the COVID-19 pandemic has significantly affected our financial performance and we expect that it will continue to do so. Given the unprecedented nature of the COVID-19 pandemic and the fast pace at which new developments relating to the pandemic are occurring, it is difficult to assess or predict the short-term or long-term effects of the pandemic on our financial performance.

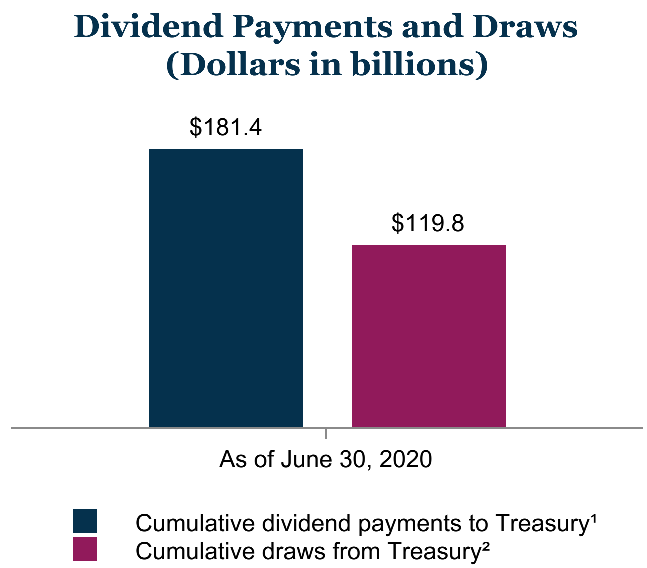
Net Worth, Treasury Funding and Senior Preferred Stock Dividends

Treasury has made a commitment under a senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. Pursuant to the senior preferred stock purchase agreement, we issued shares of senior preferred stock to Treasury in 2008.

Under the terms of the senior preferred stock, we will not owe senior preferred stock dividends to Treasury until we have accumulated over $25 billion in net worth as of the end of a quarter. Accordingly, no dividends were payable to Treasury for the second quarter of 2020, and none are payable for the third quarter of 2020.

The charts below show information about our net worth, the remaining amount of Treasury's funding commitment to us, senior preferred stock dividends we have paid Treasury and funds we have drawn from Treasury pursuant to its funding commitment.





(1) Aggregate amount of dividends we have paid to Treasury on the senior preferred stock from 2008 through June 30, 2020. Under the terms of the senior preferred stock purchase agreement, dividend payments we make to Treasury do not offset our draws of funds from Treasury.

(2) Aggregate amount of funds we have drawn from Treasury pursuant to the senior preferred stock purchase agreement from 2008 through June 30, 2020.

The aggregate liquidation preference of the senior preferred stock was $135.4 billion as of June 30, 2020, unchanged from March 31, 2020 as a result of the decrease in our net worth during the first quarter of 2020. The aggregate liquidation preference of the senior preferred stock will increase to $138.0 billion as of September 30, 2020 due to the $2.5 billion increase in our net worth during the second quarter of 2020.

If we were to draw additional funds from Treasury under the senior preferred stock purchase agreement with respect to a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw, and the aggregate liquidation preference of the senior preferred stock would increase by the amount of our draw. For a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, see "Business—Conservatorship, Treasury Agreements and Housing Finance Reform" in our 2019 Form 10-K.

Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock. Treasury has also made a commitment under the senior preferred stock purchase agreement to provide us with funds to maintain a positive net worth under specified conditions. However, the U.S. government does not guarantee our securities or other obligations.

COVID-19 Impact

In March 2020, President Trump declared the COVID-19 outbreak in the United States a national emergency. The COVID-19 pandemic in the United States has resulted in stay-at-home orders, school closures and widespread business shutdowns across the country. Although business activity has begun to resume to varying degrees, the speed and nature of the resumption of economic activity remains highly uncertain.

The pandemic continues to have a significant impact on our business and on our financial results. We provide a brief overview below of the economic impact of the pandemic, our response to it, and the pandemic's impact on our business and financial results, with references to where these items are discussed in more detail in this report. We also highlight below the many uncertainties relating to the impact of the COVID-19 pandemic on Fannie Mae and the housing market.

Economic Impact

The COVID-19 pandemic caused substantial financial market volatility and has significantly adversely affected both the U.S. and global economies. While state and local governments throughout the country have taken steps to re-open their economies, lifting shut-down and stay-at-home orders to varying degrees, a number of states and local governments are slowing or pausing their re-openings, or imposing new shut-down orders, as the daily number of new cases of COVID-19 has continued to reach new highs. The extensive shutdowns and other reductions in business activity across the country and globally, including those resulting from individuals and households seeking to avoid infection, have substantially increased unemployment from pre-pandemic levels. The federal government has taken many actions to reduce the negative economic impact of the COVID-19 pandemic. For example, the Federal Reserve lowered the federal funds rate and increased its purchases of Treasury and mortgage-backed securities, is purchasing corporate debt securities, and established and expanded liquidity facilities to support the flow of credit to consumers and businesses. In addition, the federal government passed legislation increasing and expanding unemployment benefits, providing direct cash payments to eligible taxpayers, and allocating funds to assist businesses, states, and municipalities.

The disruption caused by the pandemic differs from previous economic downturns because of the high level of uncertainty related to the health and safety of consumers and workers. We expect the path and timing of economic recovery will be impacted by the rate of new COVID-19 cases and the associated mortality rates. We believe that economic recovery depends on the stable return of consumer spending, increased business activity, and a reduction in unemployment, all of which impact the ability of borrowers and renters to make their monthly payments. Government support, as described above, has played a role in helping to reduce the negative economic impact of the pandemic with direct funding provided to affected households and businesses. Absent additional government action, some of these programs are ending, including the $600 weekly addition to unemployment benefits, which expires at the end of July. The ultimate impact of these programs expiring and the extent to which existing and future government actions will mitigate the negative impacts of COVID-19 on the U.S. economy and our business is unclear. The pandemic resulted in a contraction in U.S. gross domestic product (“GDP”) for the first half of 2020 and could result in future declines in or a sustained drop in the level of U.S. economic activity. See “Key Market Economic Indicators” for information on macroeconomic conditions during the first half of 2020 and our current forecasts regarding future macroeconomic conditions.

Fannie Mae Response

We are taking a number of actions to help borrowers, renters, lenders and servicers manage the negative impact of the COVID-19 pandemic, including providing payment forbearance (that is, a temporary suspension of the borrower’s monthly mortgage payments) to single-family and multifamily borrowers with COVID-19-related financial hardships, suspending foreclosure-related activities, providing lenders and servicers temporary flexibilities for certain of our Selling Guide and Servicing Guide requirements, and providing liquidity to lenders by purchasing a higher-than-usual volume of loans through our whole loan conduit. We have also taken steps to mitigate the risk to Fannie Mae from the impacts of the pandemic. See “Single-Family Business—Single-Family Mortgage Credit Risk Management” and “Multifamily Business—Multifamily Mortgage Credit Risk Management” for more information on the actions we are taking in response to the COVID-19 pandemic.

We have also taken steps to protect the safety and resiliency of our workforce. We have required nearly all of our workforce to work remotely since mid-March and continue to assess when it will be safe for employees to return to the office. To date, our business resiliency plans and technology systems have effectively supported this company-wide telework arrangement.

Impact on our Business and Financial Results

The economic dislocation caused by the COVID-19 pandemic was the primary driver of the decline in our net income in the first half of 2020, as compared with the first half of 2019. We significantly increased our allowance for loan losses in the first quarter of 2020 to reflect our expected loan losses as a result of the pandemic, which resulted in substantial credit-related expenses. We expect the impact of the pandemic to continue to negatively affect our financial results, contributing to lower net income in 2020 than in 2019. We could also have net losses in future periods. In addition, we expect the pandemic to negatively affect our returns on capital under FHFA’s conservatorship capital requirements. See “Consolidated Results of Operations,” “Single-Family Business” and “Multifamily Business” for more information on our financial results for the second quarter and first half of 2020.

We did not enter into credit risk transfer transactions in the second quarter of 2020 due to continuing adverse market conditions as a result of the COVID-19 pandemic. Although market conditions have improved, we currently do not have plans to engage in additional credit risk transfer transactions as we evaluate FHFA’s recently re-proposed capital rule, which would reduce the amount of capital relief we obtain from these transactions. We will continue to review our plans, which may be affected by our evaluation of the proposed capital rule and changes in the rule as it is finalized, our progress in meeting FHFA’s 2020 conservatorship scorecard, the strength of future market conditions, and our review of our overall business and capital plan to enable us to exit conservatorship. See “Legislation and Regulation” for more information on FHFA’s proposed capital rule. See “Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk” and “Multifamily Business—Multifamily Mortgage Credit Risk Management—Transfer of Multifamily Mortgage Credit Risk” for more information about our credit-risk transfer activity.

Also see "Retained Mortgage Portfolio," "Liquidity and Capital Management" and "Risk Management" for discussions of the impact of the COVID-19 pandemic on our business.

Risks and Uncertainties

Our current forecasts and expectations relating to the impact of the COVID-19 pandemic are subject to many uncertainties and may change, perhaps substantially. It is difficult to assess or predict the impact of this unprecedented event on our business, financial results or financial condition. Factors that will impact the extent to which the COVID-19 pandemic affects our business, financial results and financial condition include: the duration, spread and severity of COVID-19 outbreaks; the actions taken to contain the virus or treat its impact, including government actions to mitigate the economic impact of the pandemic; the extent to which consumers, workers and families feel safe resuming business activities and school; the nature and extent of the forbearance, modification, and other loss mitigation options borrowers affected by the pandemic obtain from us; accounting elections and estimates relating to the impact of the COVID-19 pandemic; borrower and renter behavior in response to the pandemic and its economic impact; how quickly and to what extent normal economic and operating conditions can resume, including whether any future outbreaks interrupt economic recovery; and how quickly and to what extent affected borrowers, renters and counterparties can recover from the negative economic impact of the pandemic. See "Risk Factors" for a discussion of the risks to our business, financial results and financial condition relating to the COVID-19 pandemic. See "Forward-Looking Statements" for a discussion of factors that could cause actual conditions, events or results to differ materially from those described in our forecasts, expectations and other forward-looking statements in this report.

Legislation and Regulation

The information in this section updates and supplements information regarding legislative and regulatory developments affecting our business set forth in "Business—Conservatorship, Treasury Agreements and Housing Finance Reform" and "Business—Charter Act and Regulation" in our 2019 Form 10-K, as well as in "MD&A—Legislation and Regulation" in our Form 10-Q for the quarter ended March 31, 2020 ("First Quarter 2020 Form 10-Q"). Also see "Risk Factors" in this report and in our 2019 Form 10-K for discussions of risks relating to legislative and regulatory matters.

Developments Relating to Exiting Conservatorship

In September 2019, Treasury released a plan recommending reforms to the housing finance system, including recommendations relating to ending our conservatorship. The Treasury plan contemplates FHFA ending the conservatorships of each of Fannie Mae and Freddie Mac (the "GSEs") when the GSE has met specified preconditions. As described below, FHFA and we took key steps during the second quarter of 2020 in connection with these preconditions through FHFA's proposal of a new regulatory capital framework for the GSEs and our hiring of a financial advisor to assist us in planning the company's recapitalization and exit from conservatorship.

Proposed Capital Framework

On May 20, 2020, FHFA released a proposed new regulatory capital framework for the GSEs. The proposed framework is expected to require us to hold significantly more capital than the rule FHFA first proposed in June 2018. The proposed rule includes a mortgage-risk-sensitive framework, similar to the 2018 proposal, but differs from the 2018 proposal in a number of ways, including the following:

- The proposed rule includes supplemental capital requirements relating to the amount and form of the capital we hold, based on definitions of capital used in U.S. banking regulators' regulatory capital framework. The proposal specifies complementary leverage-based and risk-based requirements, which together determine the requirements for each tier of capital;
- The proposed rule requires us to hold capital buffers that can be drawn down in periods of financial stress and then rebuilt over time as economic conditions improve. If we fall below the prescribed buffer amounts, we must restrict capital distributions such as stock repurchases and dividends, as well as discretionary bonus payments to executives, until the buffer amounts are restored;
- The proposed rule provides less capital relief for credit risk transfer activities than the 2018 proposal;
- The proposed rule imposes specific minimum percentages, or "floors," on the risk-weight applicable to single-family and multifamily exposures, as well as to retained portions of credit risk transfer transactions; and
- The proposed rule incorporates additional elements based on U.S. banking regulators' regulatory capital framework, including the introduction of the advanced approach to complement the standardized approach for measuring risk-weighted assets.

The capital requirements and buffers established by the proposed rule would have a delayed compliance date, unless adjusted by FHFA, of the later of one year from publication of the final rule or the date our conservatorship terminates.

We continue to study the proposed capital rule and its potential impact on Fannie Mae and the housing market. Comments on the proposed capital rule are due by August 31, 2020. We do not yet know what changes FHFA may make to the capital rule before it is finalized or when it will be finalized. We expect that the final capital rule will have a significant impact on our business. For example, actions we take to maintain appropriate risk-adjusted returns could adversely affect our competitive position. Approximately 15% of the loans in our single-family conventional guaranty book of business as of June 30, 2020 were originated in the first half of 2020. Once loans have refinanced to current low rates, they are less likely to refinance in the future, which reduces our opportunity to adjust our guaranty fees on these loans in support of our efforts to generate capital.

See "Business—Charter Act and Regulation—GSE Act and Other Legislation—Capital" in our 2019 Form 10-K for information about capital requirements under the current rule and while we are under conservatorship.

Selection of Financial Advisor to Assist with Recapitalization Plan

In June 2020, we hired Morgan Stanley & Co. LLC as underwriting financial advisor to assist us in developing and implementing a plan for recapitalizing the company and responsibly ending our conservatorship. Our advisor is working closely with us, FHFA, and Treasury to consider business and capital structures, market impacts and timing, and available capital-raising alternatives, among other items.

Proposed Replacement for the Qualified Mortgage Patch

The Consumer Financial Protection Bureau's (the "CFPB's") "ability-to-repay" rule under the Truth in Lending Act includes a general "qualified mortgage" definition, and an exception to that definition referred to as the qualified mortgage "patch," pursuant to which conventional mortgage loans are considered qualified mortgages if they (1) meet certain qualified mortgage requirements generally and (2) are eligible to be purchased or guaranteed by Fannie Mae or Freddie Mac operating under the conservatorship or receivership of FHFA. The qualified mortgage patch is currently scheduled to expire on the earlier of January 10, 2021 or the exit of the GSEs from conservatorship. In June 2020, the CFPB proposed to eliminate the qualified mortgage patch and revise the general qualified mortgage definition. Under the proposal, a loan would no longer need to meet a maximum debt-to-income ratio of 43% and requirements in Appendix Q to the rule to be considered a qualified mortgage. Qualified mortgage status would instead be determined using a priced-based approach along with consideration and verification of the borrower's income, assets and debts. The CFPB also proposed in June to delay the expiration of the qualified mortgage patch until its replacement becomes effective or when Fannie Mae and Freddie Mac cease to be in conservatorship or receivership, whichever occurs first.

State and Local Government Responses to COVID-19

Many states and localities have issued executive orders and are considering or have enacted legislation requiring mortgage forbearance, foreclosure and eviction moratoriums, and rent flexibilities. The terms of these new and proposed requirements vary significantly in duration and scope, with some providing borrower or renter relief that goes beyond the scope of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), an economic stimulus bill enacted by Congress in March 2020 that contains a number of provisions aimed at providing relief for borrowers and renters experiencing financial hardship caused by the COVID-19 pandemic. Actions taken by federal, state or local lawmakers to provide additional relief to borrowers and renters during the COVID-19 outbreak, depending on their scope and whether and to what extent they apply to our business, could have a material adverse effect on our business and financial results.

Proposed 2021 Housing Goals and Temporary Adjustments to Duty to Serve Program

In July 2020, FHFA published proposed single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2021. In the past, FHFA has proposed housing goals for a three-year period, but due to the COVID-19 pandemic and associated economic uncertainty, FHFA proposed benchmark levels for only the 2021 calendar year. Under FHFA's proposed rule, the benchmark levels for our single-family and multifamily housing goals would remain the same as those currently applicable for 2020. Comments on the proposed rule are due in September 2020. FHFA will issue a final rule after considering the comments received on the proposed rule.

Also in response to the disruption and uncertainty caused by the pandemic, in July 2020 FHFA approved temporary adjustments to our duty-to-serve obligations. As a result, the duty-to-serve plan we submit in September 2020 will extend our current plan by one year, so that it covers 2018 to 2021, rather than covering 2021 to 2023 in a new plan. FHFA expects our next proposed three-year plan, which will be due to FHFA in May 2021, will cover 2022 to 2024. In addition, FHFA provided guidance clarifying how FHFA will take into account market conditions when evaluating our 2020 and 2021 achievements under our duty-to-serve plan.

Possible Designation of Secondary Mortgage Market Activities as Systemically Important

In December 2019, the Financial Stability Oversight Counsel (the "FSOC") finalized new interpretive guidance on designating nonbank financial companies as systemically important financial institutions. The guidance implemented an "activities-based" approach to identifying and addressing potential risks to financial stability, providing for entity-specific designations only if a potential risk cannot adequately be addressed through an activities-based approach. In July 2020, the FSOC announced that it will begin an activities-based review of the secondary mortgage market to assess both the risk that activities in the secondary mortgage market pose to the stability of the financial system and the efficacy of various risk mitigants. If the FSOC designates us as a systemically important financial institution following this review, we would become subject to additional regulation and oversight by the Federal Reserve Board. See "Risk Factors" in our 2019 Form 10-K for discussions of our uncertain future and how regulatory actions could negatively impact our business, results of operations, financial condition or net worth.

Swap Transactions; Minimum Capital and Margin Requirements

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are required to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in October 2015, an inter-agency body of regulators issued a final rule under the act governing margin and capital requirements applicable to entities that are subject to their oversight. The rule is effective in two phases and each phase requires that we implement operational changes and changes relating to the collateral we collect and provide for swap transactions. The first phase of the rule became effective in 2017. Effectiveness of the second phase of the rule was scheduled for September 2020, but was delayed in June 2020 to September 2021 in light of exigent circumstances caused by the COVID-19 pandemic. This phase will require additional operational changes and changes to collateral requirements, which may increase the costs associated with hedging our retained mortgage portfolio.

Transition from LIBOR to Alternative Reference Rates

We continue working with the Alternative Reference Rates Committee (the "ARRC"), FHFA, Freddie Mac, and other industry participants on a process to replace LIBOR by the end of 2021. In May 2020, we announced that we will cease issuing LIBOR-indexed Single-Family and Multifamily Connecticut Avenue Securities® ("CAS") products by the end of the fourth quarter of 2020. We expect that any CAS products we issue after that time would be based on the Secured Overnight Financing Rate ("SOFR"). We also announced that we expected to begin offering SOFR-indexed Real Estate Mortgage Investment Conduit securities ("REMICs") and interest-only and principal-only strip securities ("SMBS") beginning in July 2020, and that we will cease issuing new LIBOR-indexed REMICs and SMBS no later than September 30, 2020.

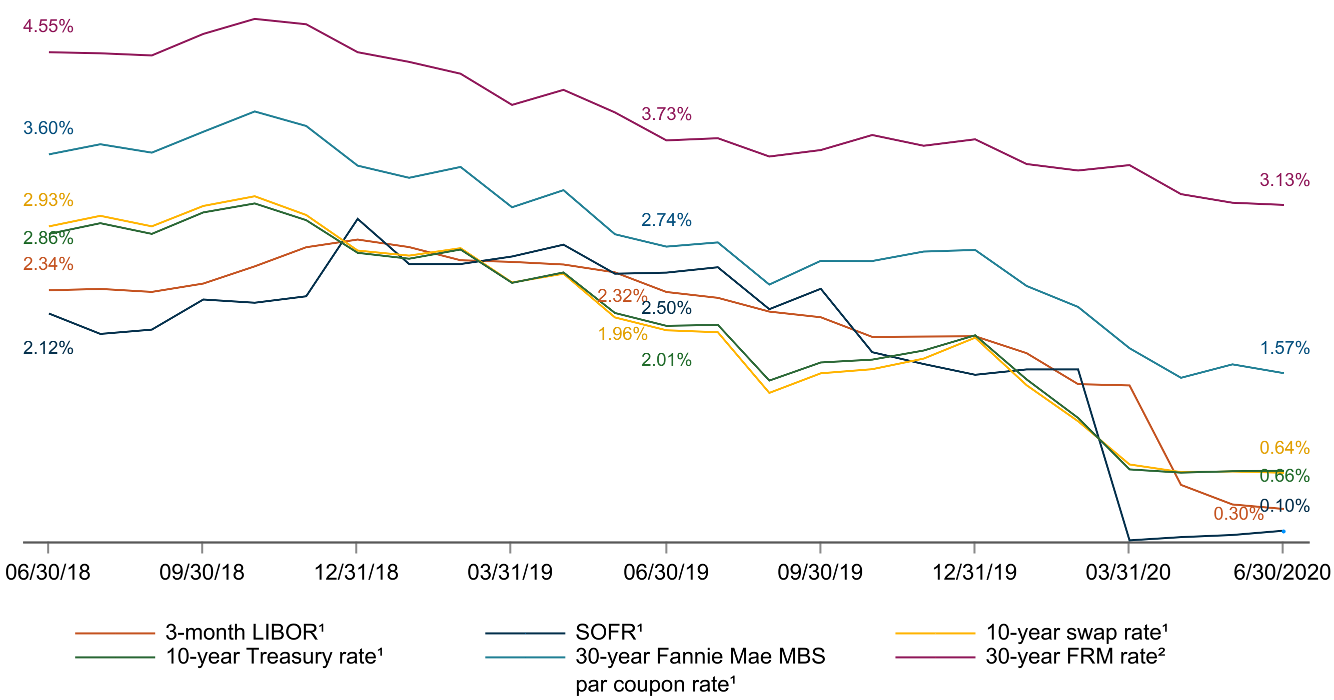
Working with FHFA, in May 2020 we also jointly published with Freddie Mac a LIBOR transition playbook and issued frequently asked questions ("FAQs") that provide answers regarding Fannie Mae's and Freddie Mac's transition away from LIBOR-indexed products to SOFR-indexed products. Fannie Mae and Freddie Mac also each launched a LIBOR transition web page that serves as a resource for lenders, servicers, investors and vendors to access key updates and information during the shift from LIBOR to alternative reference rates.

Key Market Economic Indicators

The COVID-19 pandemic has had a significant adverse effect on both the U.S. and global economies. Below we discuss how varying macroeconomic conditions can influence our financial results across different business and economic environments. See “Executive Summary—COVID-19 Impact” for additional information on the effects of the pandemic on the economy and the uncertainty associated with its ultimate impact on our business and financial results.

Our forecasts and expectations relating to the impact of the COVID-19 pandemic are subject to many uncertainties and may change, perhaps substantially, from our current forecasts and expectations.

Selected Benchmark Interest Rates



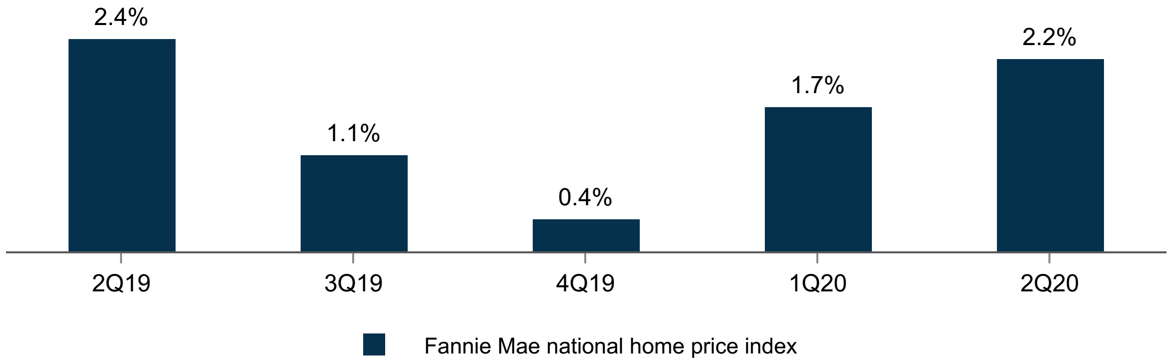
(1) According to Bloomberg.

(2) Refers to the U.S. weekly average fixed-rate mortgage rate according to Freddie Mac's Primary Mortgage Market Survey®. These rates are reported using the latest available data for a given period.

How interest rates can affect our financial results

- *Net interest income*. In a rising interest-rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income from cost basis adjustments on mortgage loans and related debt. Conversely, in a declining interest-rate environment, our mortgage loans tend to prepay faster, typically resulting in higher net amortization income from cost basis adjustments on mortgage loans and related debt.
- *Fair value gains (losses)*. We have exposure to fair value gains and losses resulting from changes in interest rates, primarily through our mortgage commitment derivatives and risk management derivatives, which we mark to market through earnings. Fair value gains and losses on our mortgage commitment derivatives fluctuate depending on how interest rates and prices move between the time the commitment is opened and settled. The net position and composition across the yield curve of our risk management derivatives changes over time. As a result, interest rate changes (increases or decreases) and yield curve changes (parallel, steepening or flattening shifts) will generate varying amounts of fair value gains or losses in a given period. We are preparing to implement hedge accounting to reduce the impact of interest-rate volatility on our financial results. For additional information on the expected impact of hedge accounting, see “Consolidated Results of Operations—Fair Value Losses, Net.”
- *Credit-related income (expense).* Increases in mortgage interest rates tend to lengthen the expected lives of our loans, which generally increases the expected impairment and provision for credit losses on such loans. Decreases in mortgage interest rates tend to shorten the expected lives of our loans, which reduces the impairment and provision for credit losses on such loans.

Single-Family Quarterly Home Price Growth Rate[1]

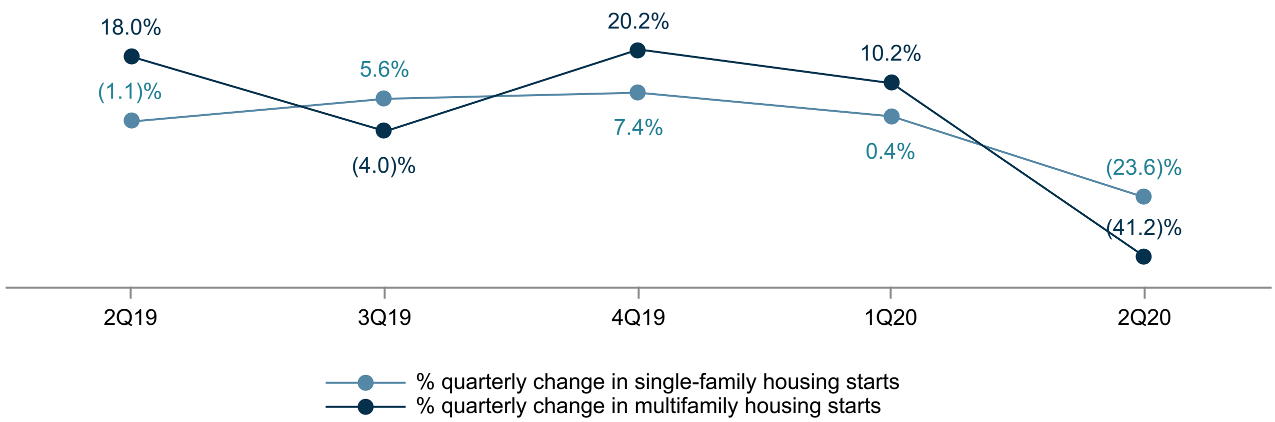


(1) Calculated internally using property data on loans purchased by Fannie Mae, Freddie Mac, and other third-party home sales data. Fannie Mae's home price index is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's home price index excludes prices on properties sold in foreclosure. Fannie Mae's home price estimates are based on preliminary data and are subject to change as additional data become available.

How home prices can affect our financial results

- Actual and forecasted home prices impact our provision or benefit for credit losses.
- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency and default rates.
- As home prices increase, the severity of losses we incur on defaulted loans that we hold or guarantee decreases because the amount we can recover from the properties securing the loans increases. Decreases in home prices increase the losses we incur on defaulted loans.
- Home prices in the second quarter of 2020 remained relatively strong despite the COVID-19 pandemic. We believe home prices benefited from continuing low levels of supply and high levels of demand due to historically low interest rates, particularly from first-time homebuyers, and a greater contraction in supply than in demand since the start of the pandemic. Higher-than-expected increases in supply or decreases in demand could lead to substantial decreases in home prices.
- We currently expect home prices on a national basis to moderate slightly to 4.4% growth in 2020, compared with the 4.8% home price growth rate in 2019. Our current expectations for home price growth in 2020 have increased significantly from our first-quarter estimate of near-zero growth for the year. This improvement in our 2020 home price growth forecast is due to better-than-expected home sales data in the first half of the year. However, we have adjusted downward our longer-term projection of home price growth as we believe there may be a delayed response in home prices due to the ongoing economic and labor market weaknesses caused by the pandemic. We also expect significant regional variation in the timing and rate of home price growth.
- Our forecasts and expectations relating to the impact of the COVID-19 pandemic are subject to many uncertainties and may change, perhaps substantially, from our current forecasts and expectations. For example, home price growth could slow and potentially decline if GDP growth is weaker than we currently expect, unemployment, particularly among existing homeowners and potential new home buyers, is higher than we expect, or if the housing market is more sensitive to economic and labor-market weaknesses than we expect. For further discussion on housing activity, see "Single-Family Business—Single-Family Mortgage Market" and "Multifamily Business—Multifamily Mortgage Market."

New Housing Starts[1]

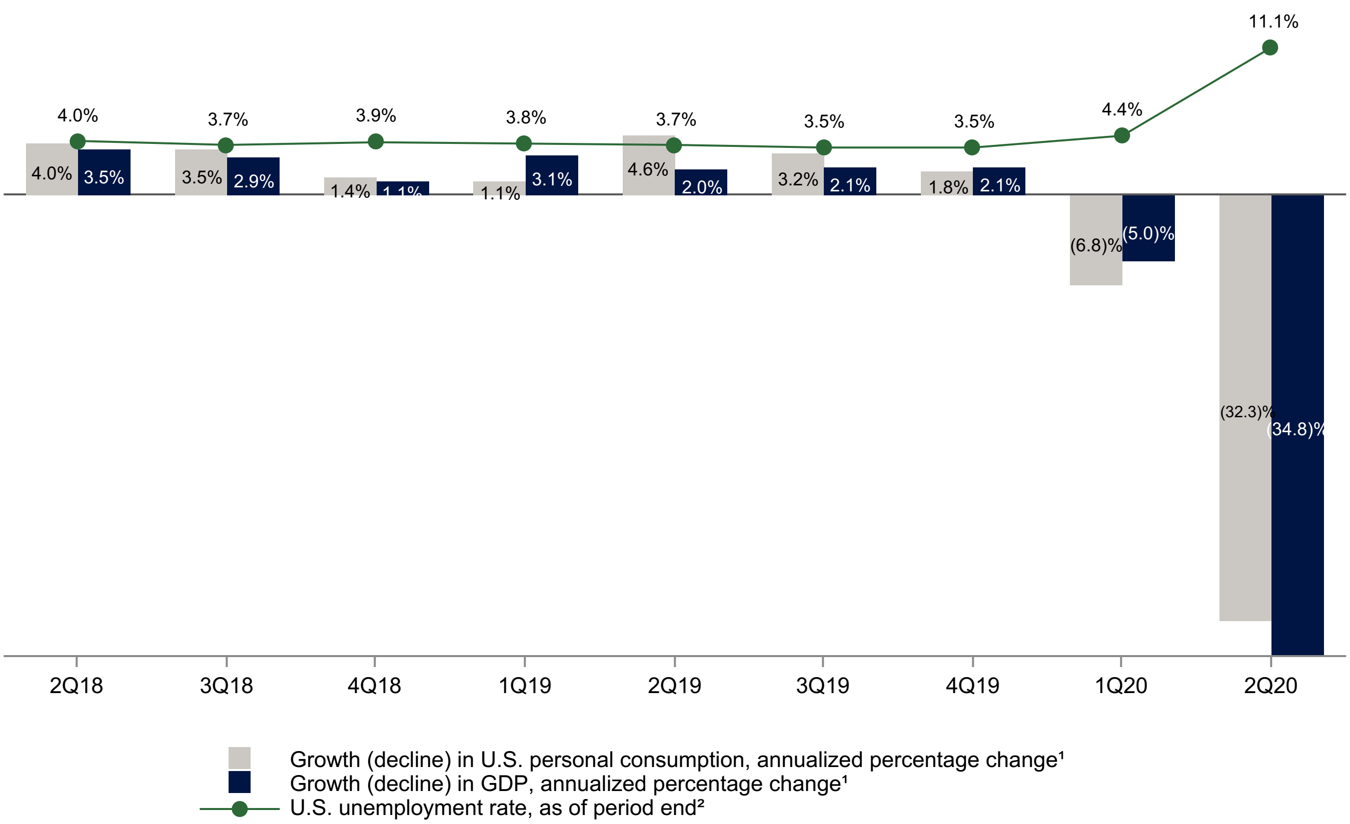


(1) According to U.S. Census Bureau and subject to revision.

How housing activity can affect our financial results

- Two key aspects of economic activity that can impact supply and demand for housing and thus mortgage lending are the rate of household formation and new housing construction.
- Household formation is a key driver of demand for both single-family and multifamily housing. A newly formed household will either rent or purchase a home. Thus, changes in the pace of household formation can affect prices and credit performance as well as the degree of loss on defaulted loans.
- Growth of household formation stimulates homebuilding. Homebuilding has typically been a cyclical leader of broader economic activity contributing to the growth of GDP and to employment. Residential construction activity has historically been a leading indicator, weakening prior to a slowdown in U.S. economic activity and accelerating prior to a recovery. However, the 2008-2009 recession was significantly impacted by real estate and real estate finance. Therefore, various policy responses were targeted to real estate and real estate finance, potentially altering the cyclical performance of the real estate sector. Due to the adverse nature of the current economic situation, the housing sector's performance may vary from its historical precedent.
- In light of the uncertainties surrounding the effects of the COVID-19 pandemic and its impact on the economy, home sales fell sharply in the second quarter; however, we expect a partial rebound in the third quarter as purchase demand is supported by the low mortgage-rate environment. This trend is expected to increase single-family housing starts in the third quarter, though we still expect full-year 2020 single-family housing starts to decline.
- A decline in housing starts results in fewer new homes being available for purchase and potentially a lower volume of mortgage originations. Construction activity can also affect credit losses. If the growth of demand exceeds the growth of supply, prices will appreciate and impact the risk profile of newly originated home purchase mortgages, depending on where in the housing cycle the market is. A reduced pace of construction is often associated with a broader economic slowdown and signals expected increases in delinquency and losses on defaulted loans.

GDP, Unemployment Rate and Personal Consumption



(1) GDP growth (decline) and personal consumption growth (decline) for periods prior to the second quarter of 2020 are based on the quarterly series calculated by the Bureau of Economic Analysis and are subject to revision. GDP growth (decline) and personal consumption growth (decline) for the second quarter of 2020 are based on Fannie Mae's forecast.

(2) According to the U.S. Bureau of Labor Statistics and subject to revision.

How GDP, the unemployment rate and personal consumption can affect our financial results

- Changes in GDP, the unemployment rate and personal consumption can affect several mortgage market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Economic growth is a key factor for the performance of mortgage-related assets. In a growing economy, employment and income are rising, thus allowing existing borrowers to meet payment requirements, existing homeowners to consider purchasing another home, and renters to consider becoming homeowners. Homebuilding typically increases to meet the rise in demand. Mortgage delinquencies typically fall in an expanding economy, thereby decreasing credit losses.
- In a slowing economy, employment and income growth slow and housing activity slows as an early indicator of reduced economic activity. As the slowdown intensifies, households become more conservative and debt repayment takes precedence over consumption, which then falls and accelerates the slowdown. If the slowdown of economic growth turns to recession, employment losses occur impairing the ability of borrowers and renters to meet mortgage and rental payments, and loan delinquencies rise. Home sales and mortgage originations also typically fall in a slowing economy.
- Due to the impact of COVID-19, the unemployment rate rose significantly and GDP declined significantly in the first half of 2020. While we expect GDP to improve in the second half of the year, overall for 2020 we expect a decline in GDP compared with 2019, as well as elevated unemployment levels.

See "Risk Factors—Market and Industry Risk" in our 2019 Form 10-K and "Risk Factors" in this report for further discussion of risks to our business and financial results associated with interest rates, home prices, housing activity and economic conditions.

Consolidated Results of Operations

This section discusses our condensed consolidated results of operations and should be read together with our condensed consolidated financial statements and the accompanying notes.

Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
	(Dollars in millions)					
Net interest income[1]	**$ 5,777**	$ 5,227	$ 550	**$ 11,124**	$ 10,023	$ 1,101
Fee and other income	**90**	113	(23)	**210**	247	(37)
Net revenues	**5,867**	5,340	527	**11,334**	10,270	1,064
Investment gains (losses), net	**149**	461	(312)	**(9)**	594	(603)
Fair value losses, net	**(1,018)**	(754)	(264)	**(1,294)**	(1,585)	291
Administrative expenses	**(754)**	(744)	(10)	**(1,503)**	(1,488)	(15)
Credit-related income (expenses):						
Benefit (provision) for credit losses	**(12)**	1,225	(1,237)	**(2,595)**	1,875	(4,470)
Foreclosed property expense	**(10)**	(128)	118	**(90)**	(268)	178
Total credit-related income (expenses)	**(22)**	1,097	(1,119)	**(2,685)**	1,607	(4,292)
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	**(660)**	(600)	(60)	**(1,297)**	(1,193)	(104)
Credit enhancement expense[2]	**(360)**	(276)	(84)	**(736)**	(492)	(244)
Change in expected credit enhancement recoveries[3]	**273**	—	273	**461**	—	461
Other expenses, net[4]	**(261)**	(203)	(58)	**(479)**	(365)	(114)
Income before federal income taxes	**3,214**	4,321	(1,107)	**3,792**	7,348	(3,556)
Provision for federal income taxes	**(669)**	(889)	220	**(786)**	(1,516)	730
Net income	**$ 2,545**	$ 3,432	$ (887)	**$ 3,006**	$ 5,832	$ (2,826)
Total comprehensive income	**$ 2,532**	$ 3,365	$ (833)	**$ 3,008**	$ 5,726	$ (2,718)

(1) Prior-period amounts have been adjusted to reflect the current-year change in presentation related to our yield maintenance fees. See “Note 1, Summary of Significant Accounting Policies” for more information about our change in presentation.

(2) Previously included in Other expenses, net. Consists of costs associated with our freestanding credit enhancements, which primarily include our Connecticut Avenue Securities® (“CAS”) and Credit Insurance Risk Transfer™ (“CIRT™”) programs, enterprise-paid mortgage insurance (“EPMI”), and certain lender risk-sharing programs. See “Note 1, Summary of Significant Accounting Policies” for more information about our change in presentation.

(3) Consists of change in benefits recognized from our freestanding credit enhancements, including any realized amounts. See “Note 1, Summary of Significant Accounting Policies” for more information about our change in presentation.

(4) Consists of debt extinguishment gains and losses, housing trust fund expenses, loan subservicing costs, servicer fees paid in connection with certain loss mitigation activities, and gains and losses from partnership investments.

Net Interest Income

Our primary source of net interest income is guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties.

Guaranty fees consist of two primary components:

- base guaranty fees that we receive over the life of the loan; and
- upfront fees that we receive at the time of loan acquisition primarily related to single-family loan-level pricing adjustments and other fees we receive from lenders, which are amortized into net interest income as cost basis adjustments over the contractual life of the loan. We refer to this as amortization income.

We recognize almost all of our guaranty fee revenue in net interest income because we consolidate the substantial majority of loans underlying our Fannie Mae MBS in consolidated trusts in our condensed consolidated balance sheets. Those guaranty fees are the primary component of the difference between the interest income on loans in consolidated trusts and the interest expense on the debt of consolidated trusts.

The timing of when we recognize amortization income can vary based on a number of factors, the most significant of which is a change in mortgage interest rates. In a rising interest-rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income. Conversely, in a declining interest-rate environment, our mortgage loans tend to prepay faster, typically resulting in higher net amortization income.

We also recognize net interest income on the difference between interest income earned on the assets in our retained mortgage portfolio and our other investments portfolio (collectively, our "portfolios") and the interest expense associated with the debt that funds those assets. See "Retained Mortgage Portfolio" and "Liquidity and Capital Management—Liquidity Management—Other Investments Portfolio" for more information about our portfolios.

The table below displays the components of our net interest income from our guaranty book of business, which we discuss in "Guaranty Book of Business," and from our portfolios. Prior period amounts have been adjusted to reflect the current year change in presentation related to our yield maintenance fees.

Components of Net Interest Income

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	Variance	2020	2019	Variance
			(Dollars in millions)			
Net interest income from guaranty book of business:						
Base guaranty fee income, net of TCCA	**$ 2,677**	$ 2,382	$ 295	**$ 5,277**	$ 4,700	$ 577
Base guaranty fee income related to TCCA[1]	**660**	600	60	**1,297**	1,193	104
Net amortization income	**1,955**	1,378	577	**3,461**	2,364	1,097
Total net interest income from guaranty book of business	**5,292**	4,360	932	**10,035**	8,257	1,778
Net interest income from portfolios	**485**	867	(382)	**1,089**	1,766	(677)
Total net interest income	**$ 5,777**	$ 5,227	$ 550	**$ 11,124**	$ 10,023	$ 1,101

(1) Represents revenues generated by the 10 basis point guaranty fee increase we implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Net interest income increased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019, driven by higher net amortization income and higher base guaranty fee income, partially offset by lower income from portfolios.

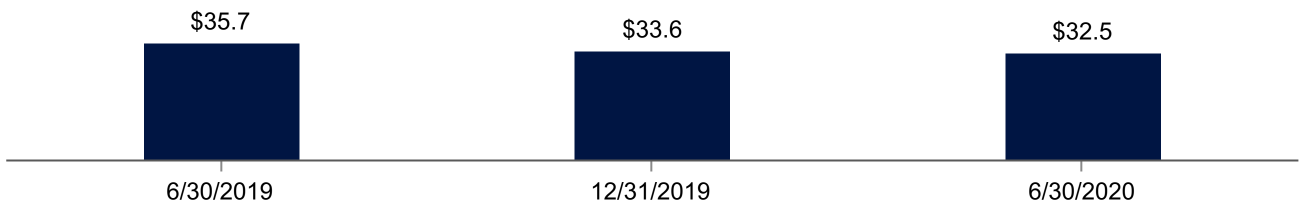
- Net amortization income increased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 as a declining interest-rate environment in the first half of 2020 led to increased prepayments on mortgage loans, which accelerated the amortization of cost basis adjustments on mortgage loans of consolidated trusts and the related debt.
- Net interest income from base guaranty fees increased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 due to an increase in the size of our guaranty book of business and loans with higher base guaranty fees comprising a larger part of our guaranty book of business.
- Net interest income from portfolios decreased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 primarily due to lower yields on mortgage loans and assets in our other investments portfolio, partially offset by a decrease in interest expense on our funding debt as key benchmark rates declined as a result of the COVID-19 pandemic. For a discussion of the impact of COVID-19 on our funding needs and funding activity, see "Liquidity and Capital Management—Liquidity Management—Debt Funding."

We expect mortgage rates to remain low through 2021, contributing to a significant amount of mortgage refinance activity and high levels of amortization income. Because a large portion of our book of business has been and is expected to be originated in a historically low interest rate environment, we anticipate that refinancing activity will decrease at some point as fewer borrowers can benefit from a refinancing or as interest rates rise. Lower levels of refinancing in the future will likely reduce the amount of amortization income we recognize.

Analysis of Deferred Amortization Income

We initially recognize mortgage loans and debt of consolidated trusts in our condensed consolidated balance sheets at fair value. The difference between the initial fair value and the carrying value of these instruments is recorded as a cost basis adjustment, either as a premium or a discount, in our condensed consolidated balance sheets. We amortize these cost basis adjustments over the contractual lives of the loans or debt. On a net basis, for mortgage loans and debt of consolidated trusts, we are in a premium position with respect to debt of consolidated trusts, which represents deferred income we will recognize in our condensed consolidated statements of operations and comprehensive income as amortization income in future periods.

Deferred Income Represented by Net Premium Position on Debt of Consolidated Trusts
(Dollars in billions)



Analysis of Net Interest Income

We have updated the application of our accounting policy for nonaccrual loans in the current period for loans negatively impacted by COVID-19. As a result, for loans that were current as of March 1, 2020 and subsequently become delinquent, we continue to accrue interest income for up to six months pursuant to an April 2020 Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (the “Interagency Statement”). If those loans are in a forbearance plan beyond six months of delinquency, we will continue to accrue interest income provided collection of principal and interest continues to be reasonably assured. As a result of this update, we recognized $1.5 billion in net interest income related to these loans in the second quarter and first half of 2020. We also recognized $172 million of provision for loan losses on the related accrued interest receivable as of June 30, 2020. This update also resulted in a significant portion of delinquent loans staying on accrual status. See “Note 1, Summary of Significant Accounting Policies” for more information about our accounting policy update and “Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Problem Loan Management” and “Multifamily Business—Multifamily Mortgage Credit Risk Management” for details about loans in a forbearance plan, as well as on-balance sheet loans past due 90 days or more and continuing to accrue interest.

The table below displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. For most components of the average balances, we use a daily weighted average of unpaid principal balance net of unamortized cost basis adjustments. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Prior-period amounts have been adjusted to reflect the current-year change in presentation related to our yield maintenance fees.

Analysis of Net Interest Income and Yield(1)

	For the Three Months Ended June 30,					
	2020			2019		
	Average Balance	Interest Income/ (Expense)	Average Rates Earned/ Paid	Average Balance	Interest Income/ (Expense)	Average Rates Earned/ Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	**$ 115,310**	**$ 1,028**	**3.57 %**	$ 117,235	$ 1,277	4.36 %
Mortgage loans of consolidated trusts	**3,311,267**	**25,979**	**3.14**	3,160,712	28,234	3.57
Total mortgage loans(2)	**3,426,577**	**27,007**	**3.15**	3,277,947	29,511	3.60
Mortgage-related securities	**10,976**	**116**	**4.23**	9,794	107	4.37
Non-mortgage-related securities(3)	**103,935**	**129**	**0.49**	60,184	370	2.43
Federal funds sold and securities purchased under agreements to resell or similar arrangements	**46,487**	**14**	**0.12**	40,851	257	2.49
Advances to lenders	**7,917**	**25**	**1.25**	4,936	41	3.28
Total interest-earning assets	**$ 3,595,892**	**$ 27,291**	**3.04 %**	$ 3,393,712	$ 30,286	3.57 %
Interest-bearing liabilities:						
Short-term funding debt	**$ 50,777**	**$ (54)**	**0.42 %**	$ 19,613	$ (119)	2.40 %
Long-term funding debt	**189,906**	**(777)**	**1.64**	173,871	(1,102)	2.54
Connecticut Avenue Securities® ("CAS")	**18,993**	**(219)**	**4.61**	24,277	(376)	6.20
Total debt of Fannie Mae	**259,676**	**(1,050)**	**1.62**	217,761	(1,597)	2.93
Debt securities of consolidated trusts held by third parties	**3,350,210**	**(20,464)**	**2.44**	3,167,754	(23,462)	2.96
Total interest-bearing liabilities	**$ 3,609,886**	**$ (21,514)**	**2.38 %**	$ 3,385,515	$ (25,059)	2.96 %
Net interest income/net interest yield		**$ 5,777**	**0.64 %**		$ 5,227	0.62 %

	For the Six Months Ended June 30,					
	2020			2019		
	Average Balance	Interest Income/ (Expense)	Average Rates Earned/ Paid	Average Balance	Interest Income/ (Expense)	Average Rates Earned/ Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	**$ 108,668**	**$ 2,044**	**3.76 %**	$ 118,567	$ 2,600	4.39 %
Mortgage loans of consolidated trusts	**3,287,673**	**53,901**	**3.28**	3,156,951	56,773	3.60
Total mortgage loans(2)	**3,396,341**	**55,945**	**3.29**	3,275,518	59,373	3.63
Mortgage-related securities	**10,926**	**215**	**3.94**	9,420	209	4.44
Non-mortgage-related securities(3)	**84,370**	**377**	**0.88**	60,507	748	2.46
Federal funds sold and securities purchased under agreements to resell or similar arrangements	**37,911**	**121**	**0.63**	41,190	520	2.51
Advances to lenders	**7,167**	**59**	**1.63**	4,320	73	3.36
Total interest-earning assets	**$ 3,536,715**	**$ 56,717**	**3.21 %**	$ 3,390,955	$ 60,923	3.59 %
Interest-bearing liabilities:						
Short-term funding debt	**$ 41,309**	**$ (156)**	**0.75 %**	$ 20,160	$ (244)	2.41 %
Long-term funding debt	**162,661**	**(1,564)**	**1.92**	176,497	(2,216)	2.51
Connecticut Avenue Securities® (“CAS”)	**19,765**	**(508)**	**5.14**	24,579	(758)	6.17
Total debt of Fannie Mae	**223,735**	**(2,228)**	**1.99**	221,236	(3,218)	2.91
Debt securities of consolidated trusts held by third parties	**3,315,963**	**(43,365)**	**2.62**	3,162,108	(47,682)	3.02
Total interest-bearing liabilities	**$ 3,539,698**	**$ (45,593)**	**2.58 %**	$ 3,383,344	$ (50,900)	3.01 %
Net interest income/net interest yield		**$ 11,124**	**0.63 %**		$ 10,023	0.59 %

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

(2) Average balance includes mortgage loans on nonaccrual status. For nonaccrual mortgage loans not subject to the COVID-19-related nonaccrual guidance, interest income is recognized when cash is received. Interest income from the amortization of loan fees, primarily consisting of upfront cash fees and yield maintenance fees, was $2.4 billion and $4.0 billion, respectively, for the second quarter and first half of 2020, compared with $1.4 billion and $2.5 billion, respectively, for the second quarter and first half of 2019.

(3) Consists of cash, cash equivalents and U.S Treasury securities.

Investment Gains (Losses), Net

Investment gains (losses), net primarily includes gains and losses recognized from the sale of available-for-sale (“AFS”) securities, the sale of loans, gains and losses recognized on the consolidation and deconsolidation of securities, net of other-than-temporary impairments recognized on our investments, and the lower of cost or fair value adjustments on single-family held-for-sale (“HFS”) loans.

Investment gains decreased in the second quarter of 2020, compared with the second quarter of 2019, as a result of a decline in sales of single-family HFS loans. We recognized investment losses in the first half of 2020, compared with investment gains in the first half of 2019, as a result of a decrease in sales of single-family HFS loans and a decline in the fair value of single-family HFS loans driven by price decreases during the first half of 2020.

Fair Value Losses, Net

The estimated fair value of our derivatives, trading securities and other financial instruments carried at fair value may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads and implied volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives that mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements.

We are preparing to implement fair value hedge accounting to reduce the impact of interest-rate volatility on our financial results. Once implemented, for derivatives in designated hedges, fair value gains and losses attributable to changes in certain benchmark interest rates, such as LIBOR or SOFR, may be reduced by offsetting gains and losses in the fair value of designated hedged mortgage loans or debt. Therefore, we expect the volatility of our financial results associated with changes in interest rates will be reduced substantially. We expect fair value gains and losses driven by other factors, such as credit spreads, will remain.

The table below displays the components of our fair value gains and losses.

Fair Value Losses, Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	**2020**	2019
	(Dollars in millions)			
Risk management derivatives fair value losses attributable to:				
Net contractual interest expense on interest-rate swaps	**$ (64)**	$ (242)	**$ (170)**	$ (508)
Net change in fair value during the period	**126**	(125)	**(129)**	(247)
Total risk management derivatives fair value gains (losses), net	**62**	(367)	**(299)**	(755)
Mortgage commitment derivatives fair value losses, net	**(662)**	(469)	**(1,655)**	(769)
Credit enhancement derivatives fair value gains (losses), net	**31**	(17)	**20**	(24)
Total derivatives fair value losses, net	**(569)**	(853)	**(1,934)**	(1,548)
Trading securities gains, net	**135**	183	**782**	275
CAS debt fair value gains (losses), net	**(163)**	119	**474**	97
Other, net[1]	**(421)**	(203)	**(616)**	(409)
Fair value losses, net	**$ (1,018)**	$ (754)	**$ (1,294)**	$ (1,585)

(1) Consists of fair value gains and losses on non-CAS debt and mortgage loans held at fair value.

Our fair value losses in the second quarter and first half of 2020 were impacted by market disruptions due to COVID-19 that resulted in lower interest rates.

Fair value losses in the second quarter of 2020 were primarily driven by:

- decreases in the fair value of mortgage commitment derivatives due to losses on commitments to sell mortgage-related securities as prices increased during the commitment period as interest rates declined, which were partially offset by gains on commitments to buy mortgage-related securities;
- increases in the fair value of long-term debt of consolidated trusts held at fair value, which are included in "Other, net," due to declines in interest rates; and
- losses on CAS debt reported at fair value resulting from tightening spreads between CAS debt yields and LIBOR during the period.

These losses were partially offset by fair value gains in the second quarter of 2020 on trading securities primarily driven by declines in interest rates, which resulted in gains on mortgage-related securities held in our retained mortgage portfolio.

Fair value losses in the first half of 2020 were primarily driven by:

- decreases in the fair value of mortgage commitment derivatives due to losses on commitments to sell mortgage-related securities as prices increased during the commitment period as interest rates declined, which were partially offset by gains on commitments to buy mortgage-related securities;
- increases in the fair value of long-term debt of consolidated trusts held at fair value, which are included in "Other, net," due to declines in interest rates; and
- net interest expense on risk management derivatives combined with decreases in the fair value of pay-fixed risk management derivatives due to declines in swap rates, which were partially offset by increases in the fair value of receive-fixed risk management derivatives.

These losses were partially offset by fair value gains in the first half of 2020 on trading securities and CAS debt, primarily driven by declines in interest rates and widened spreads between CAS debt yields and LIBOR, which resulted in gains on fixed-rate securities held in our other investments portfolio and our CAS debt held at fair value.

Fair value losses in the second quarter and first half of 2019 were primarily driven by:

- decreases in the fair value of our mortgage commitment derivatives due to losses on commitments to sell mortgage-related securities as a result of increases in the prices of securities as interest rates decreased during the commitment periods;
- net interest expense accruals on risk management derivatives combined with decreases in the fair value of pay-fixed risk management derivatives due to declines in longer-term swap rates, which were partially offset by increases in the fair value of our receive-fixed risk management derivatives; and
- increases in the fair value of our long-term debt of consolidated trusts held at fair value, which are included in "Other, net," due to declines in interest rates.

Credit-Related Income (Expense)

Our credit-related income or expense can vary substantially from period to period based on a number of factors, such as changes in actual and forecasted home prices or property valuations, fluctuations in actual and forecasted interest rates, borrower payment behavior, events such as natural disasters or pandemics, the types and volume of our loss mitigation activities, including forbearance and loan modifications, the volume of foreclosures completed, and the redesignation of loans from held for investment ("HFI") to HFS. In recent periods, the redesignation of certain reperforming and nonperforming single-family loans has been a significant driver of credit-related income. We expect this activity to have a significantly reduced impact in 2020. We suspended new sales of nonperforming and reperforming loans in the second quarter of 2020, as investor interest in purchasing these loans was severely impacted by the COVID-19 pandemic and its effects. Investor interest in purchasing reperforming loans has recently returned, and therefore we are considering resuming sales of reperforming loans. As investor interest in purchasing nonperforming loans has not returned, we do not anticipate entering into new contracts for sales of these loans in the near future.

Our credit-related income or expense and our loss reserves can also be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses. The January 1, 2020 CECL standard implementation introduced additional volatility in our financial results as credit-related income or expense now includes expected lifetime losses on our loans and thus are sensitive to fluctuations in the factors detailed above.

In the first quarter of 2020, we increased our allowance for loan losses due to our estimate of loan losses we expect to incur as a result of the COVID-19 pandemic, using an expected lifetime loss methodology. This increase was the primary driver of credit-related expense in the first half of 2020. An increase in our estimate of multifamily credit losses and an offsetting decrease in our estimate of single-family credit losses, contributed to modest credit-related expense in the second quarter of 2020.

Estimating the impact of the COVID-19 pandemic on our expected credit loss reserves required significant management judgment as we continue to observe uncertainty in our economic forecast caused by elevated levels of unemployment, the impact of fiscal stimulus actions, and variability surrounding the continued spread of COVID-19; thereby impacting projected borrower behavior. We applied management judgment in estimating the number of single-family borrowers who will receive forbearance and any resulting repayment plans, deferrals, or loan modifications that will be provided once the forbearance period ends. Under our CECL methodology, depending on the type of loan modification granted, loss severity estimates vary. In determining our allowance for loan losses as of June 30, 2020, we estimated that up to 12.5% of our single-family borrowers based on loan count and up to 10% of our multifamily guaranty book of business based on unpaid principal balance would ultimately receive forbearance due to a COVID-19-related financial hardship. This represents a downward revision from our March 31, 2020 estimate of up to 15% of single-family borrowers and up to 20% of our multifamily guaranty book of business and is based on recent economic data and actual forbearance activity observed in the second quarter of 2020. Although we believe our estimates underlying our allowance determination are reasonable, we may observe future volatility in these estimates as we continue to observe actual loan performance data and update our models and assumptions surrounding this unprecedented event. See "Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Problem Loan Management—Single-Family Loans in Forbearance" and "Multifamily Business—Multifamily Mortgage Credit Risk Management—-Multifamily Problem Loan Management and Foreclosure Prevention" for information on our loans in forbearance.

Benefit (Provision) for Credit Losses

The table below provides a quantitative analysis of the drivers for the second quarter and first half of 2020 of our single-family and multifamily provision for credit losses and the increase in expected benefit from freestanding credit enhancements. The provision for credit losses includes our provision for loan losses and the related accrued interest receivable on our book of business as well as our provision for our guaranty loss reserves. It excludes the transition impact of adopting the CECL standard, which was recorded as an adjustment to retained earnings as of January 1, 2020. Many of the drivers that contribute to our provision for credit losses overlap or are interdependent. The attribution shown below is based on internal allocation estimates.

Components of Provision for Credit Losses and Change in Expected Credit Enhancement Recoveries

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	(Dollars in millions)	
Single-family benefit (provision) for credit losses:		
Changes in loan activity[1]	$ (70)	$ (67)
Redesignation of loans from HFI to HFS	—	175
Actual and forecasted home prices	337	(584)
Actual and projected interest rates	84	1,341
Estimated impact of the COVID-19 pandemic[2]	(3)	(2,590)
Other[3]	(129)	(226)
Single-family benefit (provision) for credit losses	219	(1,951)
Multifamily provision for credit losses:		
Changes in loan activity[1]	(52)	(74)
Actual and projected interest rates	58	274
Actual and projected economic data and estimated impact of the COVID-19 pandemic	(261)	(874)
Other[3]	24	33
Multifamily provision for credit losses	(231)	(641)
Total provision for credit losses[4]	$ (12)	$ (2,592)
Change in expected credit enhancement recoveries:[5]		
Single-family	$ 208	$ 266
Multifamily	65	192
Total change in expected credit enhancement recoveries	$ 273	$ 458

(1) Primarily consists of loan liquidations, new troubled debt restructurings ("TDRs"), amortization of concessions granted to borrowers and the impact of FHFA's Advisory Bulletin 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin"). For multifamily, changes in loan activity also includes changes in the allowance due to loan delinquencies and the impact of changes in debt service coverage ratios ("DSCRs") based on updated property financial information.

(2) Includes changes in the allowance due to actual and expected loan delinquencies.

(3) Includes provision for allowance on accrued interest receivable.

(4) Excludes credit losses on our AFS securities, which are included in "Benefit (provision) for credit losses" in Summary of Condensed Consolidated Results of Operations.

(5) Excludes recoveries received after foreclosure, which are included in "Changes in expected credit enhancement recoveries" in Summary of Condensed Consolidated Results of Operations.

The primary factors that impacted our single-family benefit (provision) for credit losses in the second quarter and first half of 2020 were:

- *Expected credit losses as a result of the COVID-19 pandemic*, which includes adjustments to modeled results. In the first quarter of 2020, the rapidly changing conditions as a result of the unprecedented COVID-19 pandemic caused us to believe our model used to estimate single-family credit losses does not capture the entirety of losses we expect to incur relating to COVID-19, which includes our expectations surrounding loan forbearance and borrower behavior once the forbearance period ends. As a result, management used its judgment to increase the loss projections developed by our credit loss model in the first quarter of 2020 by $2.5 billion.

During the second quarter of 2020 our credit loss model consumed data from the initial months of the pandemic, including loan delinquencies, updated profile data for loans in forbearance, and an updated home price forecast. As more of this data was consumed by our credit loss model, we reduced our non-modeled adjustment. However, management continued to apply its judgment and supplement model results as of June 30, 2020, taking into account uncertainty regarding the type and extent of loss mitigation that may be needed when loans complete their forbearance period and the continued high degree of uncertainty regarding the future course of the pandemic and its effect on the economy, including the continued availability of fiscal stimulus to support borrowers.

For the second quarter of 2020, our estimate of expected losses due to the pandemic, which includes both modeled and non-modeled adjustments, remained relatively flat compared with the first quarter. A reduction in overall expected forbearance volumes was offset by a weaker credit profile for loans entering forbearance. Furthermore, the positive impact of higher-than-initially-expected borrower prepayment activity was offset by heightened uncertainty as noted above. When taken together, the net impact for the second quarter was a $3 million increase to expected losses as shown in the table above.

- *Changes in our expectations for home price growth*. In the first quarter, we significantly reduced our expectations for home price growth to near-zero for 2020, which contributed to our provision for credit losses for the period. However, the negative impact from the first quarter was partially reduced in the second quarter as we revised our home price forecast to reflect an increase in home price appreciation on a national basis for 2020 based on strong home sales data for the period. This improvement in the 2020 home price forecast was partially offset by our updated long-term projected home price growth estimate, which was lowered as a result of a longer projected economic recovery period. Higher home prices decrease the likelihood that loans will default and decrease the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately decreases our loss reserves and provision for credit losses. Conversely, lower home prices increase the likelihood that loans will default, thereby increasing loss reserves and provision for credit losses.
- *Credit benefit from lower actual and projected mortgage interest rates*. As mortgage interest rates decline, we expect an increase in future prepayments on single-family loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the expected impairment relating to term and interest-rate concessions provided on these loans and results in a benefit for credit losses.

Our multifamily provision for credit losses in the second quarter and first half of 2020 was primarily driven by:

- *Actual and projected economic data and expected credit losses as a result of the COVID-19 pandemic*. Similar to the single-family provision for credit losses discussed above, we believe our model used to estimate multifamily credit losses as of June 30, 2020 does not capture the entirety of losses we expect to incur relating to COVID-19. As a result, management used its judgment to increase the loss projections developed by our credit loss model to reflect our current expectations relating to the impact of the pandemic. Accordingly, our multifamily provision for credit losses was primarily driven by elevated unemployment rates compared with pre-COVID-19 levels. We expect higher unemployment rates will reduce the operating income of multifamily properties in the near term, resulting in an increase in the number of loans in forbearance. Additionally, property values are expected to decrease, increasing the probability of loan defaults.

  In the second quarter, we increased our expected credit losses as a result of significant economic uncertainty and worsened forecasted capitalization rates. We also increased our expected credit losses on senior housing loans to reflect that these properties have been disproportionately impacted by the pandemic, which has resulted in increased operating expenses and has limited these borrowers’ ability to attract new tenants. These increases in expected credit losses were partially offset by a reduction in our overall estimated forbearance volumes and lower actual and projected interest rates. In developing these adjustments, management considered the current credit risk profile of our multifamily loan book of business, as well as relevant historical credit loss experience during rare or stressful economic environments.

The table below provides quantitative analysis of the drivers for the second quarter and first half of 2019 of our single-family benefit for credit losses. The presentation of our components represents amounts recognized prior to our transition to the lifetime loss model prescribed by the CECL standard. Many of the drivers that contribute to our benefit for credit losses overlap or are interdependent. The attribution shown below is based on internal allocation estimates. The table does not include our multifamily benefit (provision) for credit losses as the amounts for 2019 were less than $50 million.

Components of Benefit for Credit Losses

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
	(Dollars in millions)	
Single-family benefit for credit losses:		
Changes in loan activity[1]	$ 198	$ 222
Redesignation of loans from HFI to HFS	423	650
Actual and forecasted home prices	312	540
Actual and projected interest rates	195	360
Other[2]	124	141
Total single-family benefit for credit losses	$ 1,252	$ 1,913

(1) Primarily consists of changes in the allowance due to loan delinquency, loan liquidations, new TDRs, amortization of concessions granted to borrowers and the impact of FHFA's Advisory Bulletin.

(2) Primarily consists of the impact of model and assumption changes and changes in the reserve for guaranty losses that are not separately included in the other components.

The primary factors that contributed to our benefit for credit losses in the second quarter and first half of 2019 were:

- The redesignation of certain reperforming single-family loans from HFI to HFS as we no longer intend to hold them for the foreseeable future or to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value with a charge-off to the allowance for loan losses. Amounts recorded in the allowance related to these loans exceeded the amounts charged off, which contributed to the benefit for credit losses.
- An increase in actual and forecasted home prices. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our loss reserves and provision for credit losses.
- Lower actual and projected mortgage interest rates. As mortgage interest rates decline, we expect an increase in future prepayments on single-family individually impaired loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the impairment relating to term and interest rate concessions provided on these loans and results in a decrease in the provision for credit losses.
- Changes in loan activity. Higher loan liquidation activity generally occurs during a lower interest rate environment as loans prepay, and during the peak home buying season of the second and third quarters of each year. When mortgage loans prepay, we reverse any remaining allowance related to these loans, which contributed to the benefit for credit losses.

TCCA Fees

Pursuant to the TCCA, in 2012, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in "Net interest income" and the expense is recognized as "TCCA fees" in our condensed consolidated financial statements. TCCA fees increased in the second quarter of 2020 compared with the second quarter of 2019 as our book of business subject to the TCCA continued to grow. Based on guidance we received from FHFA in May 2020, if we do not collect these fees due to deferred or forborne payments not being made to servicers, we will not be required to remit them to Treasury. We will resume accrual and remittance when payments resume. See "Business—Charter Act and Regulation—GSE Act and Other Legislation—Guaranty Fees and Pricing" in our 2019 Form 10-K for further discussion of the TCCA.

Credit Enhancement Expense

Credit enhancement expense consists of costs associated with our freestanding credit enhancements, which primarily include our CAS and CIRT programs, EPMI, and amortization expense for certain lender risk-sharing programs. We exclude from this expense costs related to our CAS transactions accounted for as debt instruments and credit risk transfer programs accounted for as derivative instruments. Credit enhancement expense has been presented as a separate line item for all periods presented as these expenses have become a more significant driver of our results of operations. In prior periods, credit enhancement expenses were recorded in "Other expenses, net."

Credit enhancement expense increased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 primarily due to higher outstanding volumes of loans covered by credit risk transfer transactions. We discuss the transfer of mortgage credit risk in “Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk” and “Multifamily Business—Multifamily Mortgage Credit Risk Management—Transfer of Multifamily Mortgage Credit Risk.”

Change in Expected Credit Enhancement Recoveries

Change in expected credit enhancement recoveries consists of the change in benefits recognized from our freestanding credit enhancements, including any realized amounts. Benefits, if any, from our CAS, CIRT and EPMI programs previously recorded in “Fee and other income” have been reclassified to “Change in expected credit enhancement recoveries” for all periods presented. Benefits from other lender risk-sharing programs, including our multifamily Delegated Underwriting and Servicing (“DUS®”) program, were recorded as a reduction of credit-related expense in periods prior to 2020. However, with our adoption of the CECL standard on January 1, 2020, benefits from freestanding credit enhancements are no longer recorded as a reduction of credit-related expenses. These benefits from lender risk-sharing have been reclassified into “Change in expected credit enhancement recoveries” on a prospective basis beginning January 1, 2020.

Other Expenses, Net

Other expenses primarily consists of debt extinguishment gains and losses, housing trust fund expenses, loan subservicing costs, servicer fees paid in connection with certain loss mitigation activities and gains and losses from partnership investments. We expect our fees paid to servicers for loss mitigation work to increase into 2021 as single-family borrowers who received a COVID-19-related forbearance enter into various loss mitigation solutions once the forbearance period ends, such as repayment plans, payment deferrals or loan modifications. For additional information about our loans in forbearance, see “Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Loans in Forbearance.”

Consolidated Balance Sheet Analysis

This section discusses our condensed consolidated balance sheets and should be read together with our condensed consolidated financial statements and the accompanying notes.

Summary of Condensed Consolidated Balance Sheets

	As of		
	June 30, 2020	December 31, 2019	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	**$ 79,960**	$ 34,762	$ 45,198
Restricted cash	**65,714**	40,223	25,491
Investments in securities	**108,864**	50,527	58,337
Mortgage loans:			
Of Fannie Mae	**115,313**	101,668	13,645
Of consolidated trusts	**3,356,988**	3,241,510	115,478
Allowance for loan losses	**(12,966)**	(9,016)	(3,950)
Mortgage loans, net of allowance for loan losses	**3,459,335**	3,334,162	125,173
Deferred tax assets, net	**13,119**	11,910	1,209
Other assets	**33,684**	31,735	1,949
Total assets	**$ 3,760,676**	$ 3,503,319	$ 257,357
Liabilities and equity			
Debt:			
Of Fannie Mae	**$ 275,637**	$ 182,247	$ 93,390
Of consolidated trusts	**3,444,338**	3,285,139	159,199
Other liabilities	**24,224**	21,325	2,899
Total liabilities	**3,744,199**	3,488,711	255,488
Fannie Mae stockholders' equity:			
Senior preferred stock	**120,836**	120,836	—
Other net deficit	**(104,359)**	(106,228)	1,869
Total equity	**16,477**	14,608	1,869
Total liabilities and equity	**$ 3,760,676**	$ 3,503,319	$ 257,357

Cash and Cash Equivalents and Federal Funds Sold and Securities Purchased Under Agreements to Resell or Similar Arrangements and Investments in Securities

The increase in both (1) cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements and (2) investments in securities from December 31, 2019 to June 30, 2020 was primarily driven by the investment of proceeds from new debt issuances to support refinancing activity and in anticipation of future potential liquidity needs, which we discuss in "Liquidity and Capital Management—Debt Funding—Debt Funding Activity," as well as proceeds from loan payoffs. These funds were invested in cash equivalents or U.S. Treasury securities at period end where possible.

Mortgage Loans, Net of Allowance

The mortgage loans reported in our condensed consolidated balance sheets are classified as either HFS or HFI and include loans owned by Fannie Mae and loans held in consolidated trusts.

Mortgage loans, net of allowance increased as of June 30, 2020 compared with December 31, 2019, primarily driven by:

- an increase in mortgage loans due to acquisitions, primarily from higher mortgage refinance activity, outpacing liquidations and sales;
- partially offset by an increase in our allowance for loan losses due to losses we expect to incur as a result of the COVID-19 pandemic and the impact of our adoption of the CECL standard on January 1, 2020.

For additional information on our mortgage loans, see “Note 3, Mortgage Loans,” and for additional information on changes in our allowance for loan losses, see “Note 4, Allowance for Loan Losses.”

Debt

The increase in debt of Fannie Mae from December 31, 2019 to June 30, 2020 was primarily driven by new short- and long-term debt issuances to support refinancing activity and in anticipation of future potential liquidity needs as a result of the COVID-19 pandemic. The increase in debt of consolidated trusts from December 31, 2019 to June 30, 2020 was primarily driven by sales of Fannie Mae MBS, which are accounted for as issuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party. See “Liquidity and Capital Management—Debt Funding” for a summary of activity in debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt. Also see “Note 7, Short-Term and Long-Term Debt” for additional information on our total outstanding debt.

Stockholders’ Equity

Our net equity increased as of June 30, 2020 compared with December 31, 2019 by the amount of our comprehensive income recognized during the first half of 2020, partially offset by a charge of $1.1 billion to retained earnings due to our implementation of the CECL standard on January 1, 2020. See “Note 1, Summary of Significant Accounting Policies—New Accounting Guidance—The Current Expected Credit Loss Standard” for further details.

The aggregate liquidation preference of the senior preferred stock was $135.4 billion as of June 30, 2020, unchanged from March 31, 2020 as a result of the decrease in our net worth during the first quarter of 2020. The aggregate liquidation preference of the senior preferred stock will increase to $138.0 billion as of September 30, 2020 due to the $2.5 billion increase in our net worth during the second quarter of 2020.

Retained Mortgage Portfolio

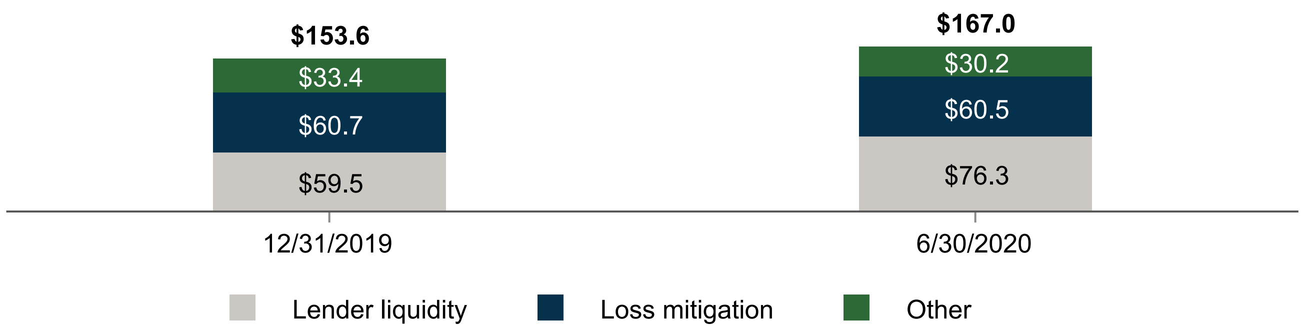
Our retained mortgage portfolio consists of mortgage loans and mortgage-related securities that we own, including Fannie Mae MBS and non-Fannie Mae mortgage-related securities. Assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties are not included in our retained mortgage portfolio.

We use our retained mortgage portfolio primarily to provide liquidity to the mortgage market and support our loss mitigation activities. Previously, we also used our retained mortgage portfolio for investment purposes.

The chart below separates the instruments within our retained mortgage portfolio, measured by unpaid principal balance, into three categories based on each instrument’s use:

- *Lender liquidity*, which includes balances related to our whole loan conduit activity, supports our efforts to provide liquidity to the single-family and multifamily mortgage markets.
- *Loss mitigation* supports our loss mitigation efforts through the purchase of delinquent loans from our MBS trusts.
- *Other* represents assets that were previously purchased for investment purposes. More than half of the balance of “Other” as of June 30, 2020 consisted of Fannie Mae reverse mortgage securities and reverse mortgage loans. We expect the amount of assets in “Other” will continue to decline over time as they liquidate, mature or are sold.

Retained Mortgage Portfolio
(Dollars in billions)



The increase in our retained mortgage portfolio as of June 30, 2020 compared with December 31, 2019 was primarily due to an increase in our acquisitions of loans through our whole loan conduit in the first half of 2020 driven by higher mortgage refinance activity. This increase was partially offset by a decrease in our legacy investment portfolio due to continued liquidations of loans and sales of private-label securities from this portfolio.

The table below displays the components of our retained mortgage portfolio, measured by unpaid principal balance.

Retained Mortgage Portfolio

	As of	
	June 30, 2020	**December 31, 2019**
	(Dollars in millions)	
Lender liquidity:		
Agency securities[1]	**$ 40,255**	$ 38,375
Mortgage loans	**36,035**	21,152
Total lender liquidity	**76,290**	59,527
Loss mitigation mortgage loans[2]	**60,454**	60,731
Other:		
Reverse mortgage loans	**15,777**	17,129
Mortgage loans	**5,728**	6,546
Reverse mortgage securities[3]	**7,023**	7,575
Private-label and other securities	**933**	1,250
Fannie Mae-wrapped private-label securities	**544**	581
Mortgage revenue bonds	**239**	272
Total other	**30,244**	33,353
Total retained mortgage portfolio	**$ 166,988**	$ 153,611
Retained mortgage portfolio by segment:		
Single-family mortgage loans and mortgage-related securities	**$ 160,517**	$ 145,179
Multifamily mortgage loans and mortgage-related securities	**$ 6,471**	$ 8,432

(1) Consists of Fannie Mae, Freddie Mac, and Ginnie Mae mortgage-related securities, including Freddie Mac securities guaranteed by Fannie Mae. Excludes Fannie Mae and Ginnie Mae reverse mortgage securities and Fannie Mae-wrapped private-label securities.

(2) Includes single-family loans classified as TDRs that were on accrual status of $37.4 billion and $38.2 billion as of June 30, 2020 and December 31, 2019, respectively, and single-family loans on nonaccrual status of $19.7 billion and $19.6 billion as of June 30, 2020 and December 31, 2019. Includes multifamily loans classified as TDRs that were on accrual status of $24 million and $51 million as of June 30, 2020 and December 31, 2019, respectively, and multifamily loans on nonaccrual status of $158 million and $132 million as of June 30, 2020 and December 31, 2019, respectively.

(3) Consists of Fannie Mae and Ginnie Mae reverse mortgage securities.

The amount of mortgage assets that we may own is capped at $250 billion by our senior preferred stock purchase agreement with Treasury, and FHFA has directed that we further cap our mortgage assets at $225 billion. The Treasury plan includes a recommendation that Treasury and FHFA amend our senior preferred stock purchase agreement to further reduce the cap on our investments in mortgage-related assets, and also to restrict our retained mortgage portfolio to solely supporting the business of securitizing MBS. See "Business—Conservatorship, Treasury Agreements and Housing Finance Reform" in our 2019 Form 10-K for additional information on our portfolio cap and the Treasury plan.

Effective January 31, 2020, FHFA directed us to include 10% of the notional value of interest-only securities in calculating the size of the retained portfolio for the purpose of determining compliance with the senior preferred stock purchase agreement retained portfolio limits and associated FHFA guidance. As of June 30, 2020, 10% of the notional value of our interest-only securities was $2.2 billion, which is not included in the table above.

We have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. In support of our loss mitigation strategies, we purchased $5.6 billion of loans from our single-family MBS trusts in the first half of 2020, the substantial majority of which were delinquent. In deciding whether and when to exercise our option to purchase a loan from a single-family MBS trust, we consider a variety of factors, including, but not limited to, the cost of funds, general market conditions, and relevant market yields. The weight we give to these factors, among others, changes depending on market circumstances and other factors. See "MD&A—Retained Mortgage Portfolio—Purchases of Loans from Our MBS Trusts" in our 2019 Form 10-K for more information relating to our purchases of loans from MBS trusts.

As a result of the COVID-19 pandemic, we have made a number of changes to our single-family and multifamily loss mitigation strategies. This includes providing single-family borrowers experiencing COVID-19-related financial hardship with payment forbearance for up to 12 months, as well as repayment plan, payment deferral and loan modification options once the forbearance period ends. Typically, we do not buy loans out of our MBS trusts while they are in forbearance or when they are granted certain other loss mitigation options, such as a repayment plan, payment deferral or certain types of loan modifications. We expect the amount of loans we buy out of trusts over the long term as a result of loan delinquencies or loss mitigation strategies will increase the size of our retained mortgage portfolio, perhaps substantially. The volume of loans we ultimately buy, the timing of those purchases, and the length of time those loans remain in our retained mortgage portfolio remain highly uncertain and depend on a number of factors, including the success of our loss mitigation activities. As described in "Liquidity and Capital Management—Debt Funding," depending on the extent of our funding needs and the amount of mortgage loans we purchase from MBS trusts, we may be required to obtain FHFA's and Treasury's prior written consent to increase our current debt limit and mortgage asset limit. See "Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Problem Loan Management—Single-Family Loans in Forbearance" and "Multifamily Business—Multifamily Mortgage Credit Risk Management—Multifamily Problem Loan Management and Foreclosure Prevention" for information on our loans in forbearance.

Guaranty Book of Business

Our "guaranty book of business" consists of:

- Fannie Mae MBS outstanding, excluding the portions of any structured securities we issue that are backed by Freddie Mac securities;
- mortgage loans of Fannie Mae held in our retained mortgage portfolio; and
- other credit enhancements that we provide on mortgage assets.

"Total Fannie Mae guarantees" consists of:

- our guaranty book of business; and
- the portions of any structured securities we issue that are backed by Freddie Mac securities.

We and Freddie Mac began issuing single-family uniform mortgage-backed securities, or "UMBS®," in June 2019. In this report, we use the term "Fannie Mae-issued UMBS" to refer to single-family Fannie Mae MBS that are directly backed by fixed-rate mortgage loans and generally eligible for trading in the to-be-announced ("TBA") market. We use the term "Fannie Mae MBS" or "our MBS" to refer to any type of mortgage-backed security that we issue, including UMBS, Supers™, Real Estate Mortgage Investment Conduit securities ("REMICs") and other types of single-family or multifamily mortgage-backed securities.

Some Fannie Mae MBS that we issue are backed in whole or in part by Freddie Mac securities. When we resecuritize Freddie Mac securities into Fannie Mae-issued structured securities, such as Supers and REMICs, our guaranty of principal and interest extends to the underlying Freddie Mac securities. However, Freddie Mac continues to guarantee the payment of principal and interest on the underlying Freddie Mac securities that we have resecuritized. We do not charge an incremental guaranty fee to include Freddie Mac securities in the structured securities that we issue. References to our single-family guaranty book of business in this report exclude Freddie Mac-acquired mortgage loans underlying Freddie Mac securities that we have resecuritized.

The table below displays the composition of our guaranty book of business based on unpaid principal balance. Our single-family guaranty book of business accounted for 90% of our guaranty book of business as of June 30, 2020 and December 31, 2019.

Composition of Fannie Mae Guaranty Book of Business[1]

	As of					
	June 30, 2020			December 31, 2019		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Conventional guaranty book of business[2]	**$ 3,142,861**	**$ 359,071**	**$3,501,932**	$ 2,997,475	$ 341,522	$3,338,997
Government guaranty book of business[3]	**25,102**	**958**	**26,060**	27,422	1,079	28,501
Guaranty book of business	**3,167,963**	**360,029**	**3,527,992**	3,024,897	342,601	3,367,498
Freddie Mac securities guaranteed by Fannie Mae[4]	**101,430**	**—**	**101,430**	50,100	—	50,100
Total Fannie Mae guarantees	**$ 3,269,393**	**$ 360,029**	**$3,629,422**	$ 3,074,997	$ 342,601	$3,417,598

(1) Includes other single-family Fannie Mae guaranty arrangements of $1.2 billion and $1.3 billion as of June 30, 2020 and December 31, 2019, and other multifamily Fannie Mae guaranty arrangements of $11.0 billion and $11.3 billion as of June 30, 2020 and December 31, 2019, respectively. The unpaid principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(2) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government.

(3) Refers to mortgage loans and mortgage-related securities guaranteed or insured, in whole or in part, by the U.S. government.

(4) Consists of approximately (i) $79.8 billion and $37.8 billion in unpaid principal balance of Freddie Mac-issued UMBS backing Fannie Mae-issued Supers as of June 30, 2020 and December 31, 2019, respectively; and (ii) $21.6 billion and $12.3 billion in unpaid principal balance of Freddie Mac securities backing Fannie Mae-issued REMICs, a portion of which may be backed in whole or in part by Fannie Mae MBS, as of June 30, 2020 and December 31, 2019, respectively. Therefore, our total exposure to Freddie Mac securities included in Fannie Mae REMIC collateral is likely lower.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, including by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the "GSE Act") requires us to set aside each year an amount equal to 4.2 basis points of the unpaid principal balance of our new business purchases and to pay this amount to specified U.S. Department of Housing and Urban Development ("HUD") and Treasury funds in support of affordable housing. In February 2020, we paid $280 million to the funds based on our new business purchases in 2019. For the first six months of 2020, we recognized an expense of $242 million related to this obligation based on $575.9 billion in new business purchases during the period. We expect to pay this amount to the funds in 2021, plus additional amounts to be accrued based on our new business purchases in the second half of 2020. See "Business—Charter Act and Regulation—GSE Act and Other Legislation—Affordable Housing Allocations" in our 2019 Form 10-K for more information regarding this obligation.

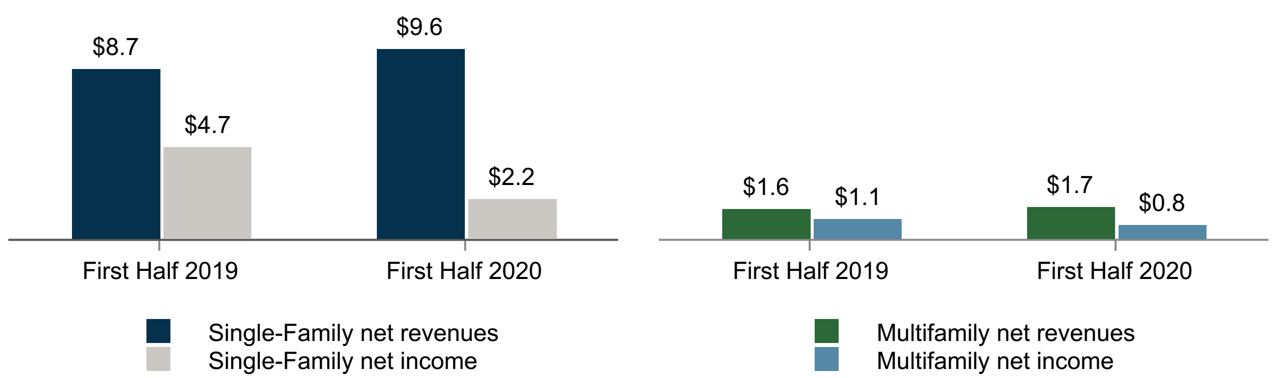
Business Segments

We have two reportable business segments: Single-Family and Multifamily. The Single-Family business operates in the secondary mortgage market relating to single-family mortgage loans, which are secured by properties containing four or fewer residential dwelling units. The Multifamily business operates in the secondary mortgage market relating primarily to multifamily mortgage loans, which are secured by properties containing five or more residential units.

The chart below displays the net revenues and net income for each of our business segments for the first half of 2019 compared with the first half of 2020. Net revenues consist of net interest income and fee and other income.

Business Segment Net Revenues and Net Income

(Dollars in billions)



In the following sections, we describe each segment's business metrics, financial results and credit performance.

Single-Family Business

Working with our lender customers, our Single-Family business provides liquidity to the mortgage market primarily by acquiring single-family loans from lenders and securitizing those loans into Fannie Mae MBS, which are either delivered to the lenders or sold to investors or dealers.

This section supplements and updates information regarding our Single-Family business segment in our 2019 Form 10-K. See "MD&A—Single-Family Business" in our 2019 Form 10-K for additional information regarding the primary business activities, customers and competition of our Single-Family business.

Single-Family Market Share

Single-Family Mortgage Acquisition Market Share

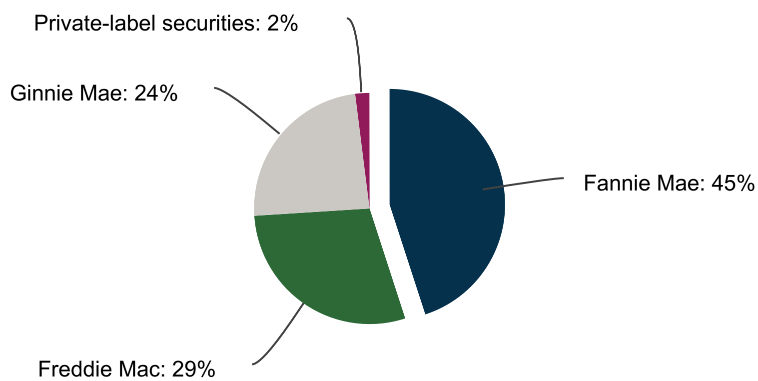
Our share of the single-family mortgage acquisition market, including loans held on lenders' books, may fluctuate from period to period. We currently estimate our single-family acquisition market share in the last three years was within the range of 24%

to 30%, supporting approximately one in four single-family mortgage loans. Our market share estimate is based on publicly available data regarding the amount of single-family first-lien mortgage loans originated and our competitors' acquisitions.

Single-Family Mortgage-Related Securities Issuances Market Share

Our single-family Fannie Mae MBS issuances were $342.8 billion for the second quarter of 2020, compared with $120.1 billion for the second quarter of 2019. This increase was driven by a high volume of refinance activity in the first half of 2020 due to lower mortgage rates. Based on the latest data available, the chart below displays our estimated market share of single-family mortgage-related securities issuances in the second quarter of 2020 as compared with that of our primary competitors for the issuance of single-family mortgage-related securities.

Single-Family Mortgage-Related Securities Issuances Second Quarter 2020 Market Share



We estimate our market share of single-family mortgage-related securities issuances was 45% in the second quarter of 2020, compared with 38% in the first quarter of 2020 and 35% in the second quarter of 2019.

Single-Family Mortgage Market

Housing activity, especially sales of existing homes and construction of single-family housing, slowed significantly in the second quarter of 2020 due to the COVID-19 pandemic. While we expect a modest recovery in the third quarter of 2020, total home sales and housing starts are expected to decline significantly for the full year of 2020. However, we expect continued low mortgage rates will support refinance originations throughout 2020.

Housing activity decreased in the second quarter of 2020 compared with the first quarter of 2020. Total existing home sales averaged 4.3 million units annualized in the second quarter of 2020, compared with 5.5 million units in the first quarter of 2020, according to data from the National Association of REALTORS®. According to the U.S. Census Bureau, new single-family home sales decreased during the second quarter of 2020, averaging an annualized rate of 676,000 units, compared with 701,000 units in the first quarter of 2020.

The 30-year fixed mortgage rate averaged 3.23% in the second quarter of 2020, compared with 3.51% in the first quarter of 2020, according to Freddie Mac's Primary Mortgage Market Survey®.

We forecast that total originations in the U.S. single-family mortgage market in 2020 will increase from 2019 levels by approximately 36%, from an estimated $2.31 trillion in 2019 to $3.14 trillion in 2020, and that the amount of originations in the U.S. single-family mortgage market that are refinances will increase from an estimated $1.01 trillion in 2019 to $1.88 trillion in 2020.

Presentation of Our Single-Family Guaranty Book of Business

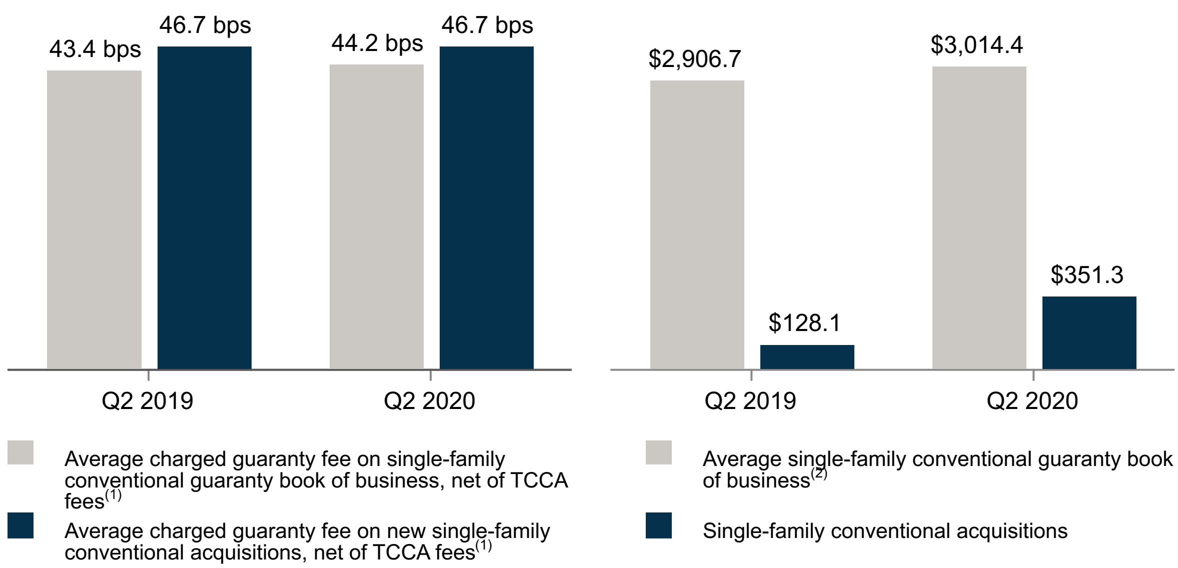
For purposes of the information reported in this "Single-Family Business" section, we measure the single-family guaranty book of business using the unpaid principal balance of our mortgage loans underlying Fannie Mae MBS outstanding. By contrast, the single-family guaranty book of business presented in the "Composition of Fannie Mae Guaranty Book of Business" table in the "Guaranty Book of Business" section is based on the unpaid principal balance of the Fannie Mae MBS outstanding, rather than the unpaid principal balance of the underlying mortgage loans. These amounts differ primarily as a result of payments we receive on underlying loans that have not yet been remitted to the MBS holders. As measured for purposes of the information reported below, our single-family conventional guaranty book of business was $3,052.1 billion as of June 30, 2020 and $2,951.9 billion as of December 31, 2019.

Single-Family Business Metrics

Net interest income for our Single-Family business is driven by the guaranty fees we charge and the size of our single-family conventional guaranty book of business. The guaranty fees we charge are based on the characteristics of the loans we acquire. We may adjust our guaranty fees in light of market conditions and to achieve return targets, which are based on FHFA's conservatorship capital framework that currently applies to Fannie Mae. As a result, the average charged guaranty fee on new acquisitions may fluctuate based on the credit quality and product mix of loans acquired, as well as market conditions and other factors.

The charts below display our average charged guaranty fees, net of TCCA fees, on our single-family conventional guaranty book of business and on new single-family conventional loan acquisitions, along with our average single-family conventional guaranty book of business and our single-family conventional loan acquisitions for the periods presented.

Single-Family Guaranty Fees, Acquisitions and Book of Business Metrics
(Dollars in billions)



(1) Excludes the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

(2) Our single-family conventional guaranty book of business primarily consists of single-family conventional mortgage loans underlying Fannie Mae MBS outstanding. It also includes single-family conventional mortgage loans of Fannie Mae held in our retained mortgage portfolio, and other credit enhancements that we provide on single-family conventional mortgage assets. Our single-family conventional guaranty book of business does not include: (a) non-Fannie Mae single-family mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty; (b) mortgage loans guaranteed or insured, in whole or in part, by the U.S. government; or (c) Freddie Mac-acquired mortgage loans underlying Freddie Mac-issued UMBS that we have resecuritized. Our average single-family conventional guaranty book of business is based on quarter-end balances.

Average charged guaranty fee represents, on an annualized basis, the sum of the average base guaranty fees for our single-family conventional guaranty arrangements, which we receive over the life of the loan, during the period, plus the recognition of any upfront cash payments relating to these guaranty arrangements based on an estimated average life at the time of acquisition. Management uses average charged guaranty fee on new acquisitions as a metric to assess the reasonableness of our compensation for the credit risk we manage on newly acquired loans.

Single-Family Business Financial Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	Variance	2020	2019	Variance
			(Dollars in millions)			
Net interest income[1]	**$ 4,939**	$ 4,419	$ 520	**$ 9,480**	$ 8,458	$ 1,022
Fee and other income	**71**	88	(17)	**165**	194	(29)
Net revenues	**5,010**	4,507	503	**9,645**	8,652	993
Investment gains (losses), net	**96**	417	(321)	**(56)**	511	(567)
Fair value losses, net	**(1,030)**	(758)	(272)	**(1,490)**	(1,645)	155
Administrative expenses	**(625)**	(634)	9	**(1,254)**	(1,265)	11
Credit-related income (expense)[2]	**216**	1,126	(910)	**(2,034)**	1,644	(3,678)
TCCA fees[1]	**(660)**	(600)	(60)	**(1,297)**	(1,193)	(104)
Credit enhancement expense	**(307)**	(229)	(78)	**(623)**	(399)	(224)
Change in expected credit enhancement recoveries[3]	**208**	—	208	**266**	—	266
Other expenses, net[4]	**(252)**	(189)	(63)	**(415)**	(356)	(59)
Income before federal income taxes	**2,656**	3,640	(984)	**2,742**	5,949	(3,207)
Provision for federal income taxes	**(556)**	(769)	213	**(574)**	(1,253)	679
Net income	**$ 2,100**	$ 2,871	$ (771)	**$ 2,168**	$ 4,696	$ (2,528)

(1) Reflects the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury. The resulting revenue is included in net interest income and the expense is recognized as "TCCA fees."

(2) Consists of the benefit or provision for credit losses and foreclosed property income or expense. The presentation of our credit-related income for the three and six months ended June 30, 2019 represents amounts recognized prior to our transition to the lifetime loss model prescribed by the CECL standard.

(3) Consists of change in benefits recognized from our single-family freestanding credit enhancements, which primarily relate to our CAS and CIRT programs. See "Note 1, Summary of Significant Accounting Policies" for more information about our change in presentation.

(4) Consists primarily of debt extinguishment gains and losses, housing trust fund expenses, servicer fees paid in connection with certain loss mitigation activities, and loan subservicing costs.

Net Interest Income

Single-family net interest income increased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019, primarily due to higher net amortization income and higher base guaranty fee income, partially offset by a decline in income from portfolios. The drivers of net interest income for the Single-Family segment are consistent with the drivers of net interest income in our condensed consolidated statements of operations and comprehensive income, which we discuss in "Consolidated Results of Operations—Net Interest Income."

Investment Gains (Losses), Net

Investment gains decreased in the second quarter of 2020 compared with the second quarter of 2019 as a result of a decline in sales of single-family HFS loans. We recognized investment losses in the first half of 2020, compared with investment gains in the first half of 2019, as a result of a decrease in sales of single-family loans and a decline in the fair value of HFS loans driven by price decreases during the first half of 2020. The drivers of investment gains (losses), net for the Single-Family segment are consistent with the drivers of investment gains (losses), net in our condensed consolidated statements of operations and comprehensive income, which we discuss in "Consolidated Results of Operations—Investment Gains (Losses), Net."

Fair Value Losses, Net

Fair value losses, net in the second quarter and first half of 2020 were primarily driven by decreases in the fair values of our mortgage commitment derivatives, partially offset by fair value gains on trading securities. Fair value losses, net in the second quarter and first half of 2019 were primarily driven by decreases in the fair value of our mortgage commitments and our pay-fixed risk management derivatives, and net interest expense accruals on our risk management derivatives. The drivers of fair value losses, net for the Single-Family segment are consistent with the drivers of fair value losses, net in our condensed consolidated statements of operations and comprehensive income, which we discuss in "Consolidated Results of Operations—Fair Value Losses, Net."

As we discuss in "Consolidated Results of Operations—Fair Value Losses, Net," we expect that implementing a hedge accounting program will reduce the volatility of our financial results associated with changes in interest rates, while fair value gains and losses driven by other factors such as credit spreads will remain.

Credit-Related Income (Expense)

Credit-related income for the second quarter of 2020 was primarily driven by an increase in actual home prices. In the first quarter, our expectations for home price growth for 2020 were near-zero. However, in the second quarter of 2020, we revised our home price forecast for the year to reflect an increase in home price appreciation on a national basis for 2020 based on continued strong home sales. This change contributed to credit-related income for the period.

Credit-related expense for the first half of 2020 was primarily driven by an increase in our allowance for loan losses due to losses we expect to incur as a result of the COVID-19 pandemic. This was partially offset by lower actual and projected mortgage interest rates.

Credit-related income for the second quarter and first half of 2019 was primarily driven by the redesignation of certain single-family loans from HFI to HFS; an increase in actual and forecasted home prices; lower actual and projected mortgage interest rates; and changes in loan activity related to loan liquidations.

See "Consolidated Results of Operations—Credit-Related Income (Expense)" in this report for more information on the primary factors that contributed to our single-family credit-related income (expense).

Single-Family Mortgage Credit Risk Management

This section updates our discussion of single-family mortgage credit risk management in our 2019 Form 10-K. For additional information on our acquisition and servicing policies, underwriting and servicing standards, quality control process, repurchase requests, and representation and warranty framework, see "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management" in our 2019 Form 10-K.

Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards

COVID-19 Selling Policies

We are working closely with Freddie Mac, under the guidance and at the direction of FHFA, to offer temporary measures during the COVID-19 national emergency that provide lenders with the clarity and flexibility to continue lending in a prudent and responsible manner. We will continue monitoring the market to determine whether further adjustments to our temporary policies are appropriate.

Temporary policy flexibilities and updates to our Selling Guide requirements are designed to mitigate the operational impact of COVID-19 on loan underwriting and originations. These flexibilities include:

- purchasing certain loans that are subject to a COVID-19-related forbearance at the time of sale, subject to payment of a loan-level price adjustment;
- offering additional methods of obtaining verbal verifications of borrower employment;
- allowing alternative property valuation methods;
- expanding guidelines for the use of a power of attorney; and
- permitting remote online notarizations.

Temporary policy updates to provide clarity and mitigate risk include:

- assessment of more recent documentation of borrower employment (including self-employment), income, and assets;
- requiring evidence of receipt of funds from stocks, stock options and mutual funds when used for down payment or closing costs, and reducing the value to 70% when considered for reserves;
- requiring additional due diligence regarding the payment status of a borrower's existing mortgage loans;
- providing clarity for assessing self-employment income for qualifying purposes; and
- requiring that loans be no more than six months old to be eligible for sale to us.

COVID-19 Servicing Policies

We also continue to work with Freddie Mac under the direction of FHFA to implement temporary policies to enable our single-family loan servicers to better assist borrowers impacted by COVID-19. We issued initial requirements to servicers on temporary policies to assist borrowers impacted by COVID-19 in March 2020, and have subsequently amended the requirements. We will continue monitoring the market to determine whether further adjustments to our temporary policies are appropriate.

These temporary policies include requiring that our single-family loan servicers:

- provide forbearance upon the request of any single-family borrower experiencing a financial hardship due to the COVID-19 pandemic, regardless of the borrower's delinquency status and with no additional documentation required other than the borrower's attestation to a financial hardship caused by COVID-19. The borrower must be provided an initial forbearance plan for a period up to 180 days, and that forbearance period may be extended for up to an additional 180 days at the request of the borrower. If the borrower's COVID-19-related hardship has not been resolved during an incremental forbearance period, the servicer must extend the borrower's forbearance period at the borrower's request, not to exceed 12 months total;
- suspend foreclosures and foreclosure-related activities for single-family properties through at least August 31, 2020, other than for vacant or abandoned properties; and
- report as current the obligation of a borrower who receives a forbearance plan or other form of relief as a result of the COVID-19 pandemic during the covered period and who was current before the accommodation and makes payments as agreed under the accommodation in accordance with the Fair Credit Reporting Act, as amended by the CARES Act.

A servicer is required to contact a borrower on a forbearance plan no later than 30 days before the end of the forbearance period to evaluate them for a workout option after the forbearance period. Those options include:

- a reinstatement (where the borrower repays all of the missed payments at one time);
- a repayment plan (where the borrower repays the missed payments over time);
- a deferral of some missed payments to the end of the loan term; or
- a modification of the loan term so that the borrower may be brought current and either continues to make their original monthly contractual payment or makes reduced monthly contractual payments over a longer period of time.

In addition, some states and local governments are considering proposals that would assist borrowers and renters impacted by COVID-19 that are more extensive than the CARES Act or our Servicing Guide requirements.

Desktop Underwriter Update

As part of our comprehensive risk management approach, we periodically update our proprietary automated underwriting system, Desktop Underwriter® ("DU®"), to reflect changes to our underwriting and eligibility guidelines. As part of normal business operations, we regularly review DU to determine whether its risk analysis and eligibility assessment are appropriate based on the current market environment and loan performance information. As a result of our most recent review, in April 2020 we enhanced the DU eligibility assessment to help Fannie Mae and our customers better manage credit risk in the current market while providing sustainable options to borrowers. We expect this change will result in a modest reduction of loans with high-risk factors being eligible for acquisition through DU.

We will continue to closely monitor loan acquisitions and market conditions and, as appropriate, seek to make changes in our eligibility criteria so that the loans we acquire are consistent with our risk appetite.

For further information regarding Desktop Underwriter, please see "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards" in our 2019 Form 10-K.

Single-Family Portfolio Diversification and Monitoring

The table below displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans. We provide additional information on the credit characteristics of our single-family loans in quarterly financial supplements, which we furnish to the U.S. Securities and Exchange Commission ("SEC") with current reports on Form 8-K. Information in our quarterly financial supplements is not incorporated by reference into this report.

Key Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business(1)

	Percent of Single-Family Conventional Business Volume at Acquisition(2)				Percent of Single-Family Conventional Guaranty Book of Business(3) As of	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,			
	2020	2019	**2020**	2019	**June 30, 2020**	December 31, 2019
Original loan-to-value ("LTV") ratio:(4)						
<= 60%	**24 %**	15 %	**23 %**	15 %	**20 %**	19 %
60.01% to 70%	**16**	11	**16**	11	**14**	13
70.01% to 80%	**35**	37	**35**	36	**37**	37
80.01% to 90%	**12**	14	**13**	13	**12**	12
90.01% to 95%	**10**	15	**10**	16	**11**	12
95.01% to 100%	**3**	8	**3**	9	**4**	5
Greater than 100%	*	*	*	*	**2**	2
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Weighted average	**72 %**	78 %	**73 %**	78 %	**75 %**	76 %
Average loan amount	**$280,846**	$248,993	**$278,525**	$244,880	**$ 178,018**	$ 173,804
Estimated mark-to-market LTV ratio:(5)						
<= 60%					**53 %**	54 %
60.01% to 70%					**17**	17
70.01% to 80%					**17**	16
80.01% to 90%					**9**	8
90.01% to 100%					**4**	5
Greater than 100%					*	*
Total					**100 %**	100 %
Weighted average					**57 %**	57 %
Product type:						
Fixed-rate:(6)						
Long-term	**85 %**	89 %	**85 %**	90 %	**85 %**	85 %
Intermediate-term	**15**	10	**14**	9	**13**	13
Total fixed-rate	**100**	99	**99**	99	**98**	98
Adjustable-rate	*	1	**1**	1	**2**	2
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Number of property units:						
1 unit	**98 %**	98 %	**98 %**	98 %	**97 %**	97 %
2 to 4 units	**2**	2	**2**	2	**3**	3
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Property type:						
Single-family homes	**92 %**	90 %	**92 %**	90 %	**91 %**	91 %
Condo/Co-op	**8**	10	**8**	10	**9**	9
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %

	Percent of Single-Family Conventional Business Volume at Acquisition(2)				Percent of Single-Family Conventional Guaranty Book of Business(3) As of	
	For the Three Months Ended June 30,		For the Six Months Ended June 30,			
	2020	**2019**	**2020**	**2019**	**June 30, 2020**	**December 31, 2019**
Occupancy type:						
Primary residence	**93 %**	91 %	**93 %**	90 %	**89 %**	89 %
Second/vacation home	**3**	4	**3**	4	**4**	4
Investor	**4**	5	**4**	6	**7**	7
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
FICO credit score at origination:						
< 620	***%**	* %	***%**	* %	**1 %**	1 %
620 to < 660	**2**	4	**2**	5	**5**	5
660 to < 680	**2**	4	**2**	5	**4**	5
680 to < 700	**5**	8	**6**	8	**7**	7
700 to < 740	**19**	24	**20**	24	**21**	21
>= 740	**72**	60	**70**	58	**62**	61
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Weighted average	**759**	746	**757**	744	**748**	746
Debt-to-income ("DTI") ratio at origination:(7)						
<= 43%	**80 %**	70 %	**78 %**	68 %	**76 %**	76 %
43.01% to 45%	**8**	10	**8**	10	**9**	9
Greater than 45%	**12**	20	**14**	22	**15**	15
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Weighted average	**34 %**	37 %	**34 %**	37 %	**35 %**	35 %
Loan purpose:						
Purchase	**26 %**	62 %	**30 %**	64 %	**41 %**	45 %
Cash-out refinance	**20**	19	**21**	20	**20**	19
Other refinance	**54**	19	**49**	16	**39**	36
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Geographic concentration:(8)						
Midwest	**15 %**	13 %	**14 %**	14 %	**15 %**	15 %
Northeast	**12**	13	**12**	13	**17**	17
Southeast	**21**	23	**21**	23	**22**	22
Southwest	**21**	22	**21**	22	**18**	18
West	**31**	29	**32**	28	**28**	28
Total	**100 %**	100 %	**100 %**	100 %	**100 %**	100 %
Origination year:						
2014 and prior					**32 %**	38 %
2015					**7**	8
2016					**12**	14
2017					**10**	12
2018					**8**	11
2019					**16**	17
2020					**15**	—
Total					**100 %**	100 %

* Represents less than 0.5% of single-family conventional business volume or guaranty book of business.

(1) Second-lien mortgage loans held by third parties are not reflected in the original LTV or the estimated mark-to-market LTV ratios in this table.

(2) Calculated based on the unpaid principal balance of single-family loans for each category at time of acquisition.

(3) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of the end of each period.

(4) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(5) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(6) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years.

(7) Excludes loans for which this information is not readily available.

(8) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Characteristics of our New Single-Family Loan Acquisitions

The share of our single-family loan acquisitions consisting of refinance loans rather than home purchase loans increased in the second quarter of 2020 compared with the second quarter of 2019, primarily due to a lower interest-rate environment, which encouraged refinance activity. Typically, refinance loans have lower LTV ratios than home purchase loans. This trend contributed to a decrease in the percentage of our single-family loan acquisitions with LTV ratios over 90%, from 23% in the second quarter of 2019 to 13% in the second quarter of 2020. The historically low interest interest-rate environment, combined with the high level of refinancing activity, also led to an increase in the percentage of loans we acquired with a FICO credit score over 740, from 60% in the second quarter of 2019 to 72% in the second quarter of 2020. Borrowers who refinance when interest rates initially drop tend to have a higher degree of financial literacy and, as a result, higher FICO credit scores

Our share of acquisitions of loans with DTI ratios above 45% decreased in the second quarter of 2020 compared with the second quarter of 2019. This decrease was driven in part by changes in our eligibility guidelines implemented in 2019 to further limit risk layering, particularly with respect to loans with DTI ratios above 45%, as well as a higher volume of refinance loan acquisitions.

For a discussion of factors that may impact the credit characteristics of loans we acquire in the future, see “MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring” in our 2019 Form 10-K. In this section of our 2019 Form 10-K, we also provide more information on the credit characteristics of loans in our single-family conventional guaranty book of business, including Home Affordable Refinance Program® (“HARP®”) and Refi Plus™ loans, jumbo-conforming and high-balance loans, reverse mortgages and mortgage products with rate resets.

Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk

Single-Family Credit Enhancement

Our charter generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has an LTV ratio over 80% at the time of purchase. We generally achieve this through primary mortgage insurance. We also enter into various other types of transactions in which we transfer mortgage credit risk to third parties.

The table below displays information about loans in our single-family conventional guaranty book of business covered by one or more forms of credit enhancement, including mortgage insurance or a credit risk transfer transaction. For a description of primary mortgage insurance and the other types of credit enhancements specified in the table, see "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk" in our 2019 Form 10-K. For a discussion of our exposure to and management of the institutional counterparty credit risk associated with the providers of these credit enhancements, see "MD&A—Risk Management—Institutional Counterparty Credit Risk Management" and "Note 13, Concentrations of Credit Risk" in our 2019 Form 10-K and "Note 10, Concentrations of Credit Risk" in this report. Also see "Risk Factors" in our 2019 Form 10-K and in this report.

Single-Family Loans with Credit Enhancement

	As of			
	June 30, 2020		December 31, 2019	
	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business
	(Dollars in billions)			
Primary mortgage insurance and other	**$ 662**	**22 %**	$ 653	22 %
Connecticut Avenue Securities	**813**	**27**	919	31
Credit Insurance Risk Transfer	**279**	**9**	275	10
Lender risk-sharing	**132**	**4**	147	5
Less: Loans covered by multiple credit enhancements	**(394)**	**(13)**	(438)	(15)
Total single-family loans with credit enhancement	**$ 1,492**	**49 %**	$ 1,556	53 %

Transfer of Mortgage Credit Risk

In addition to primary mortgage insurance, our Single-Family business has developed other risk-sharing capabilities to transfer portions of our single-family mortgage credit risk to the private market. Our credit risk transfer transactions are designed to transfer a portion of the losses we expect would be incurred in an economic downturn or a stressed credit environment. As described in "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions" in our 2019 Form 10-K, we have three primary single-family credit risk transfer programs: Connecticut Avenue Securities, Credit Insurance Risk Transfer, and lender risk-sharing. In March 2020, FHFA directed us to wind down our single-family lender risk-sharing transactions by the end of this year. We continually evaluate our credit risk transfer transactions which, in addition to managing our credit risk, also affect our returns on capital under FHFA's conservatorship capital requirements.

During the first half of 2020, pursuant to our credit risk transfer transactions, we transferred a portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of $127 billion at the time of the transactions. As of June 30, 2020, approximately 40% of the loans in our single-family conventional guaranty book of business, measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction.

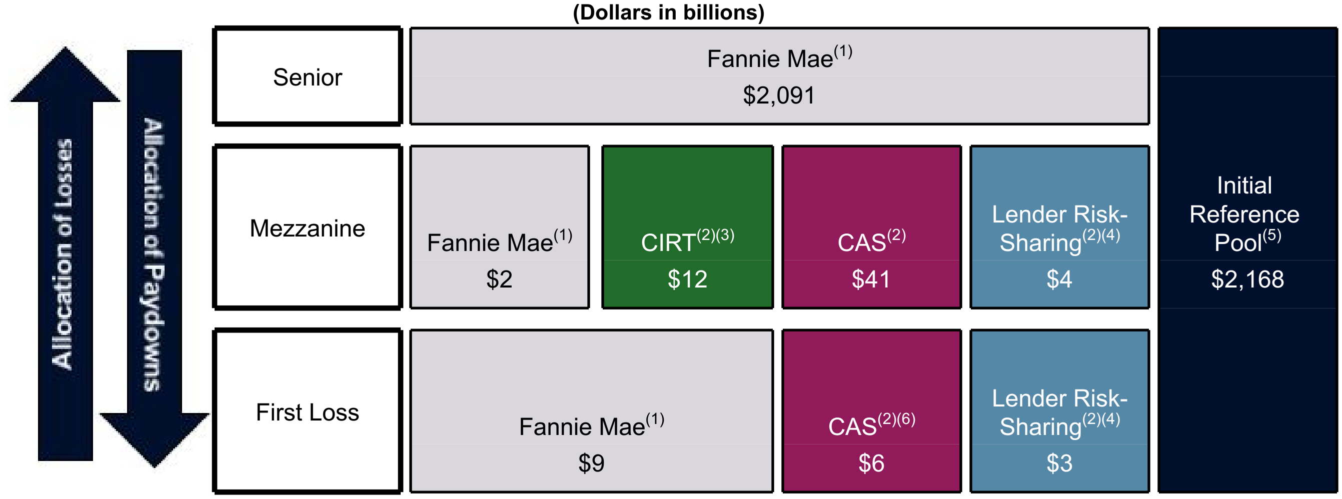
We did not enter into credit risk transfer transactions in the second quarter of 2020 due to continuing adverse market conditions resulting from the COVID-19 pandemic. This contributed to the percentage of loans in our single-family conventional guaranty book of business with credit enhancement declining from 53% as of December 31, 2019 to 49% as of June 30, 2020. Although market conditions have improved, we currently do not have plans to engage in additional credit risk transfer transactions as we evaluate FHFA's re-proposed capital rule, which would reduce the amount of capital relief we obtain from these transactions. We will continue to review our plans, which may be affected by our evaluation of the proposed capital rule and changes in the rule as it is finalized, our progress in meeting FHFA's 2020 conservatorship scorecard, the strength of future market conditions, and our review of our overall business and capital plan to enable us to exit conservatorship. See "Risk Factors" in this report for additional information on the risks associated with the constraints on our entering into new credit risk transfer transactions and "Legislation and Regulation" for more information on FHFA's proposed capital rule.

The table below displays the mortgage credit risk transferred to third parties and retained by Fannie Mae pursuant to our single-family credit risk transfer transactions.

Single-Family Credit Risk Transfer Transactions

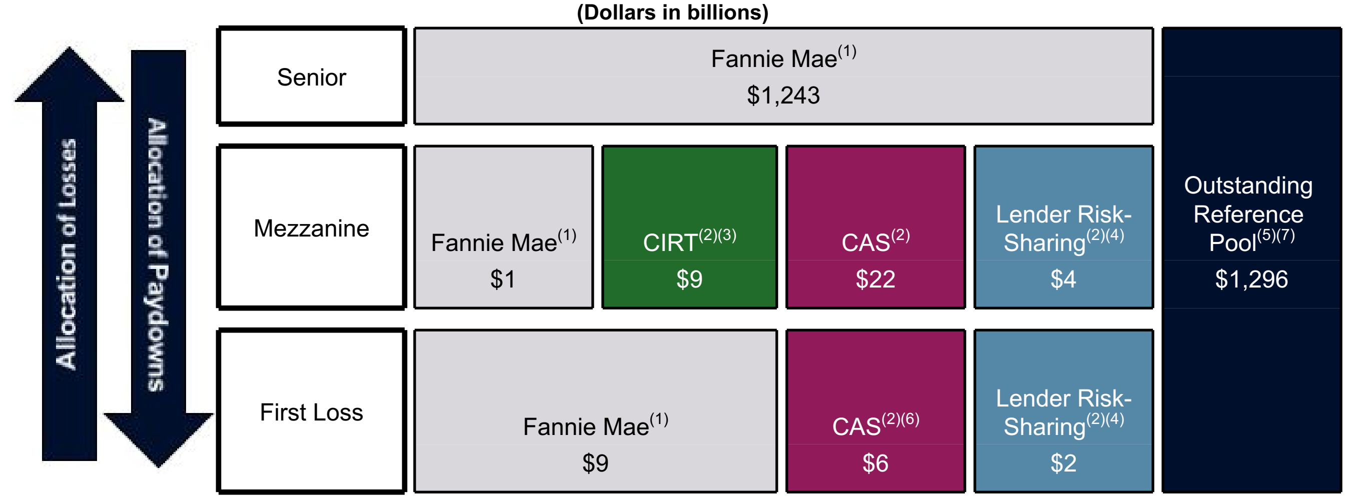
Issuances from Inception to June 30, 2020

(Dollars in billions)



Outstanding as of June 30, 2020

(Dollars in billions)



(1) Credit risk retained by Fannie Mae in CAS, CIRT and lender risk-sharing transactions. Tranche sizes vary across programs.

(2) Credit risk transferred to third parties. Tranche sizes vary across programs.

(3) Includes mortgage pool insurance transactions covering loans with an unpaid principal balance of approximately $7 billion at issuance and approximately $3 billion outstanding as of June 30, 2020.

(4) For some lender risk-sharing transactions, does not reflect completed transfers of risk prior to settlement.

(5) For CIRT and some lender risk-sharing transactions, “Reference Pool” reflects a pool of covered loans.

(6) For CAS transactions, “First Loss” represents all B tranche balances.

(7) For CAS and some lender risk-sharing transactions, represents outstanding reference pools, not the outstanding unpaid principal balance of the underlying loans. The outstanding unpaid principal balance for all loans covered by credit risk transfer programs, including all loans on which risk has been transferred in lender risk-sharing transactions, was $1,224 billion as of June 30, 2020.

The following table displays the approximate cash paid or transferred to investors for these credit risk transfer transactions. The cash represents the portion of the guaranty fee paid to investors as compensation for taking on a share of the credit risk.

Credit Risk Transfer Transactions

	For the Six Months Ended June 30, 2020	2019
	(Dollars in millions)	
Cash paid or transferred for:		
CAS transactions[1]	**$ 528**	$ 474
CIRT transactions	**207**	174
Lender risk-sharing transactions	**160**	134

(1) Consists of cash paid for interest expense net of LIBOR on outstanding CAS debt and amounts paid for both CAS REMIC® and CAS credit-linked notes ("CLN") transactions. CAS REMICs are Connecticut Avenue Securities that are structured as notes issued by trusts that qualify as REMICs. CAS CLNs are similar to CAS REMICs with the exception that loans underlying the transactions were not tagged for use in a REMIC transaction at the time of acquisition.

The following table displays the primary characteristics of the loans in our single-family conventional guaranty book of business currently without credit enhancement.

Single-Family Loans without Credit Enhancement

	As of June 30, 2020		December 31, 2019	
	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business
	(Dollars in billions)			
Low LTV ratio or short-term[1]	**$ 803**	**26 %**	$ 736	25 %
Pre-credit risk transfer program inception[2]	**549**	**18**	608	20
Recently acquired[3]	**545**	**18**	287	10
Other[4]	**279**	**9**	246	8
Less: Loans in multiple categories	**(616)**	**(20)**	(481)	(16)
Total single-family loans currently without credit enhancement	**$ 1,560**	**51 %**	$ 1,396	47 %

(1) Represents loans with an LTV ratio less than or equal to 60% or loans with an original maturity of 20 years or less.

(2) Represents loans that were acquired before the inception of our credit risk transfer programs. Also includes Refi Plus loans.

(3) Represents loans that were recently acquired and have not been included in a reference pool.

(4) Includes adjustable-rate mortgage loans, loans with a combined LTV ratio greater than 97%, non-Refi Plus loans acquired after the inception of our credit risk transfer programs that became 30 or more days delinquent prior to inclusion in a credit risk transfer transaction, and loans that were delinquent as of June 30, 2020 or December 31, 2019.

Single-Family Problem Loan Management

Our problem loan management strategies focus primarily on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to mitigate the severity of the losses we incur. See "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Problem Loan Management" in our 2019 Form 10-K for a discussion of delinquency statistics on our problem loans, efforts undertaken to manage our problem loans, metrics regarding our loan workout activities, real estate owned ("REO") management and other single-family credit-related information. The discussion below updates some of that information.

Delinquency

The table below displays the delinquency status of loans and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business, based on the number of loans. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process.

As described above in "Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—COVID-19 Servicing Policies," pursuant to the CARES Act, for purposes of reporting to the credit bureaus, servicers must report a borrower receiving a COVID-19-related payment accommodation, such as a forbearance plan or loan modification, as current if the borrower was current prior to receiving the accommodation and the borrower makes all required payments in accordance with the accommodation. For purposes of our disclosures regarding delinquency status, we will continue to report loans receiving COVID-19-related payment forbearance as delinquent according to the contractual terms of the loan.

Delinquency Status and Activity of Single-Family Conventional Loans

	As of		
	June 30, 2020	**December 31, 2019**	**June 30, 2019**
Delinquency status:			
30 to 59 days delinquent	**1.47 %**	1.27 %	1.47 %
60 to 89 days delinquent	**1.60**	0.35	0.35
Seriously delinquent ("SDQ")	**2.65**	0.66	0.70
Percentage of SDQ loans that have been delinquent for more than 180 days	**14 %**	49 %	52 %
Percentage of SDQ loans that have been delinquent for more than two years	**3**	11	12

	For the Six Months Ended June 30,	
	2020	**2019**
Single-family SDQ loans (number of loans):		
Beginning balance	**112,434**	130,440
Additions	**427,657**	101,121
Removals:		
Modifications and other loan workouts	**(18,680)**	(24,653)
Liquidations and sales	**(15,449)**	(24,395)
Cured or less than 90 days delinquent	**(52,172)**	(63,394)
Total removals	**(86,301)**	(112,442)
Ending balance	**453,790**	119,119

Our single-family delinquency rates increased as of June 30, 2020 compared with December 31, 2019 and June 30, 2019, due to economic dislocation caused by the COVID-19 pandemic, which increased borrower participation in forbearance plans. Of our single-family SDQ loan additions in the first half of 2020, 357,541 were loans in a forbearance plan. Our single-family seriously delinquent rate excluding loans in forbearance was 0.59% as of June 30, 2020. We expect the COVID-19 pandemic to result in continued higher delinquency rates over the next several quarters.

Certain higher-risk loan categories, such as Alt-A loans, loans with mark-to-market LTV ratios greater than 100%, and our 2005 through 2008 loan vintages, continue to exhibit higher-than-average delinquency rates and/or account for a higher share of our credit losses. Single-family loans originated in 2005 through 2008 constituted 3% of our single-family book of business as of June 30, 2020, but constituted 15% of our seriously delinquent single-family loans as of June 30, 2020 and drove 32% of our single-family credit losses in the first half of 2020. In addition, loans in certain judicial foreclosure states such as Florida, New Jersey and New York with historically long foreclosure timelines have exhibited higher-than-average delinquency rates and/or account for a higher share of our credit losses.

The table below displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. Percentage of book amounts present the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family conventional guaranty book of business. We also include information for our loans in California because the state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of								
	June 30, 2020			December 31, 2019			June 30, 2019		
	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate
States:									
California	**19 %**	**13 %**	**2.54 %**	19 %	6 %	0.32 %	19 %	6 %	0.33 %
Florida	**6**	**10**	**3.98**	6	8	0.84	6	9	0.94
Illinois	**4**	**4**	**2.71**	4	6	0.91	3	5	0.94
New Jersey	**3**	**5**	**4.81**	3	5	1.13	4	6	1.28
New York	**5**	**8**	**4.96**	5	8	1.18	5	8	1.32
All other states	**63**	**60**	**2.30**	63	67	0.64	63	66	0.67
Product type:									
Alt-A[2]	**1**	**6**	**8.07**	2	9	2.95	2	11	3.25
Vintages:									
2004 and prior	**2**	**10**	**5.00**	2	20	2.48	3	22	2.61
2005-2008	**3**	**15**	**8.37**	4	33	4.11	4	38	4.45
2009-2020	**95**	**75**	**2.21**	94	47	0.35	93	40	0.32
Estimated mark-to-market LTV ratio:									
<= 60%	**53**	**52**	**2.16**	54	52	0.53	55	51	0.55
60.01% to 70%	**17**	**18**	**3.36**	17	17	0.80	18	17	0.81
70.01% to 80%	**17**	**15**	**3.18**	16	14	0.75	15	14	0.83
80.01% to 90%	**9**	**10**	**4.21**	8	9	1.00	8	9	1.10
90.01% to 100%	**4**	**4**	**3.43**	5	4	0.86	4	4	1.15
Greater than 100%	*	**1**	**18.12**	*	4	10.14	*	5	10.63
Credit enhanced:[3]									
Primary MI & other[4]	**22**	**26**	**3.85**	22	26	0.96	22	26	1.01
Credit risk transfer[5]	**40**	**37**	**2.78**	45	16	0.27	42	11	0.24
Non-credit enhanced	**51**	**51**	**2.37**	47	66	0.79	51	68	0.79

* Represents less than 0.5% of single-family conventional guaranty book of business.

(1) Calculated based on the number of single-family loans that were seriously delinquent for each category divided by the total number of single-family conventional loans that were seriously delinquent.

(2) For a description of our Alt-A loan classification criteria, see "MD&A—Glossary of Terms Used in This Report" in our 2019 Form 10-K.

(3) The credit-enhanced categories are not mutually exclusive. A loan with primary mortgage insurance that is also covered by a credit risk transfer transaction will be included in both the "Primary MI & other" category and the "Credit risk transfer" category. As a result, the "Credit enhanced" and "Non-credit enhanced" categories do not sum to 100%. The total percentage of our single-family conventional guaranty book of business with some form of credit enhancement as of June 30, 2020 was 49%.

(4) Refers to loans included in an agreement used to reduce credit risk by requiring primary mortgage insurance, collateral, letters of credit, corporate guarantees, or other agreements to provide an entity with some assurance that it will be compensated to some degree in the event of a financial loss. Excludes loans covered by credit risk transfer transactions unless such loans are also covered by primary mortgage insurance.

(5) Refers to loans included in reference pools for credit risk transfer transactions, including loans in these transactions that are also covered by primary mortgage insurance. For CAS and some lender risk-sharing transactions, this represents outstanding unpaid principal balance of the underlying loans on the single-family mortgage credit book, not the outstanding reference pool, as of the specified date. Loans included in our credit risk transfer transactions have all been acquired since 2009.

Single-Family Loans in Forbearance

The following table displays information about our single-family loans in forbearance. As a part of our credit loss mitigation strategy and pursuant to the CARES Act, we are providing payment forbearance for up to 12 months to borrowers experiencing a COVID-19-related financial hardship. Of our single-family loans in forbearance as of June 30, 2020, 93% were in a payment forbearance as a result of the borrower experiencing a COVID-19-related financial hardship. Some borrowers whose loans are in forbearance continued making payments according to the original contractual terms of the loan notwithstanding the forbearance arrangement; we expect some of these borrowers to continue to do so. In the table below we provide information on the credit profile of our single-family loans in forbearance, which is somewhat weaker than the credit profile of our overall single-family guaranty book of business. We expect the number of single-family loans in forbearance to remain high in the near term due to the COVID-19 pandemic.

Single-Family Loans in Forbearance

	As of	
	June 30, 2020	**December 31, 2019**
	(Dollars in millions)	
Number of loans	**972,088**	5,415
Amortized cost	**$ 206,961**	$ 989
Unpaid principal balance	**$ 203,485**	$ 991
Percentage of single-family guaranty book of business based on unpaid principal balance	**6.7 %**	*
Percentage of single-family guaranty book of business based on loan count	**5.7**	*

* Represents less than 0.05% of single-family guaranty book of business.

The following tables display interest income recognized on single-family loans in forbearance held as of period end and the delinquency status and risk characteristics of such loans. As discussed in "Note 1, Summary of Significant Accounting Policies," we have updated our application of our nonaccrual accounting policy for those loans negatively impacted by the COVID-19 pandemic. For loans that were current as of March 1, 2020 and subsequently become delinquent, we will continue to accrue interest income according to the updated policy. This update resulted in a significant portion of delinquent loans, including those in forbearance, remaining on accrual status.

The amount of interest income we recognized on loans in forbearance was not material for the three and six months ended June 30, 2019, which was prior to the Interagency Statement and the update to our application of our nonaccrual policy.

Interest Income Recognized on Single-Family Loans in Forbearance

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	(Dollars in millions)	
Interest income recognized on loans in forbearance held as of period end[(1)]	$ 2,065	$ 4,090

(1) Represents interest income recognized on these loans during the period, including amounts recognized prior to entry into a forbearance arrangement.

Delinquency Status and Risk Characteristics of Loans in Forbearance

	As of June 30, 2020			As of December 31, 2019		
	Number of Loans	Percentage of Loans in Forbearance[1]	Unpaid Principal Balance	Number of Loans	Percentage of Loans in Forbearance[1]	Unpaid Principal Balance
			(Dollars in millions)			
Delinquency status:						
Current	**248,639**	**25 %**	**$ 49,228**	454	8 %	$ 76
30 to 59 days delinquent	**124,947**	**13**	**25,382**	592	11	103
60 to 89 days delinquent	**239,932**	**25**	**51,010**	710	13	126
Seriously delinquent	**358,570**	**37**	**77,865**	3,659	68	686
Total loans in forbearance	**972,088**	**100 %**	**$ 203,485**	5,415	100 %	$ 991

	As of June 30, 2020		As of December 31, 2019	
	Number of Loans	Percentage of Unpaid Principal Balance in Forbearance	Number of Loans	Percentage of Unpaid Principal Balance in Forbearance
		(Dollars in millions)		
Loans in forbearance with certain higher-risk characteristics:[2]				
Estimated mark-to-market LTV ratio > 80%	**135,395**	**18 %**	1,073	24 %
Estimated mark-to-market LTV ratio > 80% without mortgage insurance	**15,313**	**2**	54	1
DTI > 43%	**369,021**	**40**	1,956	39
FICO credit score at origination < 680	**241,693**	**21**	2,395	42

(1) Calculated as a percentage based on loan count.

(2) The higher-risk categories are not mutually exclusive.

Principal and Interest Payments while Loans are in Forbearance

While a loan is in forbearance and backs an MBS trust, investors in the MBS are entitled to continue to receive principal and interest payments on the MBS even though the borrower is not required to make principal and interest payments on the loan. For the majority of loans in our single-family guaranty book of business, our Single-Family Servicing Guide has, until recently, required servicers to advance missed scheduled principal and interest payments to the MBS trusts until the loans were purchased from the MBS trusts. Because we typically do not purchase loans from MBS trusts while they are in forbearance, this servicer payment obligation could have continued for the entirety of the forbearance plan (which could be up to 12 months). In April 2020, FHFA instructed us to reduce our single-family servicers' obligations to advance these missed borrower payments and to only require servicers to advance missed scheduled principal and interest payments on a loan for the first four months of missed borrower payments. After four months, we will make the missed scheduled principal and interest payments to the MBS trust for payment to MBS holders so long as the loan remains in the MBS trust. See "Liquidity and Capital Management—Liquidity Management—Debt Funding—Debt Funding Activity" for information on the COVID-19 pandemic's expected impact on our liquidity and debt funding needs.

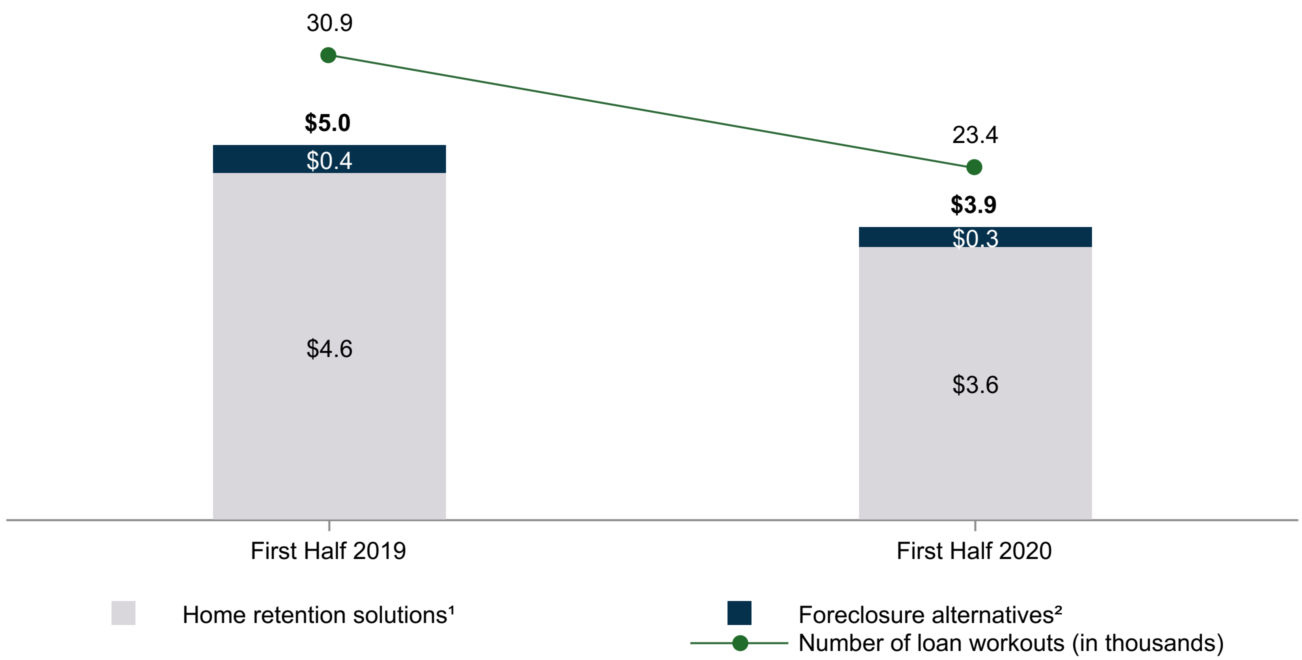
Loan Workout Metrics

Our loan workouts reflect:

- home retention solutions, including loan modifications, completed repayment plans and completed forbearance plans; and
- foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure.

The table below displays the unpaid principal balance of our completed single-family loan workouts by type for the first half of 2019 compared with the first half of 2020, as well as the number of loan workouts for each period. We exclude from this table loans that are in a forbearance arrangement that is not yet complete.

Completed Loan Workout Activity (Dollars in billions)



(1) Consists of loan modifications and completed repayment plans and forbearances. Repayment plans reflect only those plans associated with loans that were 60 days or more delinquent. Forbearances reflect only completed forbearance arrangements that involve loans that were 90 days or more delinquent. Excludes trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings, and repayment and forbearance plans that have been initiated but not completed. There were approximately 14,800 loans in a trial modification period and approximately 972,000 loans in a forbearance arrangement that were not yet complete as of June 30, 2020.

(2) Consists of short sales and deeds-in-lieu of foreclosure.

The decline in home retention solutions in the first half of 2020 compared with the first half of 2019 was primarily driven by the improved loan performance in recent periods preceding the COVID-19 pandemic. In the second quarter of 2020, we began providing payment forbearance for up to 12 months to borrowers experiencing a COVID-19 financial hardship, which has resulted in loans that otherwise might have entered into a loan workout to instead remain in a forbearance arrangement that has not yet completed. As these forbearance arrangements end, we expect significant increases in our loan workouts.

REO Management

If a loan defaults, we may acquire the home through foreclosure or a deed-in-lieu of foreclosure. The table below displays our REO activity by region. Regional REO acquisition trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Single-Family REO Properties

	For the Six Months Ended June 30,	
	2020	**2019**
Single-family REO properties (number of properties):		
Beginning of period inventory of single-family REO properties[1]	**17,501**	20,156
Acquisitions by geographic area:[2]		
Midwest	**1,066**	2,521
Northeast	**980**	2,698
Southeast	**1,272**	3,453
Southwest	**661**	1,530
West	**300**	926
Total REO acquisitions[1]	**4,279**	11,128
Dispositions of REO	**(9,105)**	(13,371)
End of period inventory of single-family REO properties[1]	**12,675**	17,913
Carrying value of single-family REO properties (dollars in millions)	**$ 1,747**	$ 2,314
Single-family foreclosure rate[3]	**0.05 %**	0.13 %
REO net sales price to unpaid principal balance[4]	**83 %**	78 %
Short sales net sales price to unpaid principal balance[5]	**80 %**	77 %

(1) Includes held-for-use properties, which are reported in our condensed consolidated balance sheets as a component of "Other assets."

(2) See footnote 8 to the "Key Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" table for states included in each geographic region.

(3) Estimated based on the annualized total number of properties acquired through foreclosure or deeds-in-lieu of foreclosure as a percentage of the total number of loans in our single-family conventional guaranty book of business as of the end of each period.

(4) Calculated as the amount of sale proceeds received on disposition of REO properties during the respective periods, excluding those subject to repurchase requests made to our sellers or servicers, divided by the aggregate unpaid principal balance of the related loans at the time of foreclosure. Net sales price represents the contract sales price less selling costs for the property and other charges paid by the seller at closing.

(5) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective periods divided by the aggregate unpaid principal balance of the related loans. Net sales price includes borrower relocation incentive payments and subordinate lien(s) negotiated payoffs.

The decline in single-family REO properties in the first half of 2020 compared with the first half of 2019 was primarily due to the suspension of foreclosures and a reduction in REO acquisitions from serious delinquencies aged greater than 180 days. With instruction from FHFA, we have prohibited our servicers from completing foreclosures on our single-family loans through at least August 31, 2020, except in the case of vacant or abandoned properties. In addition, some states and local governments have enacted additional foreclosure constraints that extend beyond that timeframe.

Other Single-Family Credit Information

Single-Family Credit Loss Metrics and Loan Sale Performance

The single-family credit loss and loan sale performance measures below present information about gains (losses) we realized on our single-family loans during the periods presented. The amount of these gains (losses) in a given period is driven by foreclosures, pre-foreclosure sales, REO activity, mortgage loan redesignations, and other events that trigger write-offs and recoveries. The credit loss metrics we present are not defined terms within generally accepted accounting principles in the United States of America ("GAAP") and may not be calculated in the same manner as similarly titled measures reported by other companies. Management uses these measures to evaluate the effectiveness of our credit risk management strategies in tandem with leading indicators such as SDQ and forbearance rates, which are potential indicators of future realized credit losses. We believe these measures provide useful information about our credit performance and the factors that impact our credit performance.

We revised the presentation of our single-family credit loss metrics in connection with our implementation of the CECL standard in January 2020, principally by separating the "Charge-offs, net of recoveries" line item into three line items: "Write-offs," "Recoveries" and "Write-offs on the redesignation of mortgage loans from HFI to HFS." Because sales of nonperforming and reperforming loans have been an important part of our credit loss mitigation strategy in recent periods, we also provide information in the table below on our loan sale performance through the "Gains (losses) on sales and other valuation adjustments" line item.

We suspended new sales of nonperforming and reperforming loans in the second quarter of 2020, as investor interest in purchasing these loans was severely impacted by the COVID-19 pandemic and its effects. Investor interest in purchasing reperforming loans has recently returned, and therefore we are considering resuming sales of reperforming loans. As investor interest in purchasing nonperforming loans has not returned, we do not anticipate entering into new contracts for sales of these loans in the near future.

The table below displays the components of our single-family credit metrics and loan sale performance.

Single-Family Credit Loss Metrics and Loan Sale Performance

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2020		2019		2020		2019	
	Amount	Ratio[(1)]	Amount	Ratio[(1)]	Amount	Ratio[(1)]	Amount	Ratio[(1)]
	(Dollars in millions)							
Write-offs	**$ (50)**		$ (82)		**$ (115)**		$ (228)	
Recoveries	**5**		27		**19**		87	
Foreclosed property expense	**(3)**		(126)		**(81)**		(269)	
Credit losses and credit loss ratio	**(48)**	**0.6 bps**	(181)	2.5 bps	**(177)**	**1.2 bps**	(410)	2.8 bps
Write-offs on the redesignation of mortgage loans from HFI to HFS	**—**		(479)		**(9)**		(719)	
Gains (losses) on sales and other valuation adjustments[(2)]	**88**		285		**(79)**		308	
Total credit gains (losses), write-offs on redesignations, and gains (losses) on sales and other valuation adjustments, and related ratio	**$ 40**	**(0.5) bps**	$ (375)	5.2 bps	**$ (265)**	**1.8 bps**	$ (821)	5.7 bps

(1) Basis points are calculated based on the amount of each line item annualized divided by the average single-family conventional guaranty book of business during the period.

(2) Consists of gains (losses) realized on the sales of nonperforming and reperforming mortgage loans during the period and temporary lower-of-cost-or-market adjustments on HFS loans, which are recognized in "Investment gains (losses), net" in our condensed consolidated financial statements.

Our single-family credit losses and credit loss ratio decreased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 primarily due to reduced foreclosures driven mostly by the COVID-19 related foreclosure moratorium.

Our single-family write-offs on redesignation decreased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 primarily as a result of our not redesignating mortgage loans from HFI to HFS in the second quarter of 2020 due to the COVID-19 pandemic. Gains (losses) on sales and other valuation adjustments decreased in the second quarter and first half of 2020 compared with the second quarter and first half of 2019 primarily due to lower gains on sales of loans.

We do not expect a substantial increase in our single-family credit losses in the near term as a result of COVID-19, as we are currently offering up to 12 months of forbearance to single-family borrowers suffering financial hardship relating to the pandemic. We have suspended foreclosures and foreclosure-related activities for single-family properties through at least August 31, 2020; however, over the longer term, the COVID-19 pandemic is likely to result in higher single-family credit losses as reflected in an increased allowance for loans losses since the inception of the pandemic. See "Risk Factors" for additional information on the credit risk impact of the COVID-19 pandemic.

For information on our credit-related income or expense, which includes changes in our allowance, see "Consolidated Results of Operations—Credit-Related Income (Expense)" and "Single-Family Business Financial Results."

Single-Family Loss Reserves

Our single-family loss reserves, which include our allowances for loan losses and the related accrued interest receivable, and reserve for guaranty losses, provide for an estimate of credit losses in our single-family guaranty book of business. For periods beginning January 1, 2020, our measurement of loss reserves reflects a lifetime credit loss methodology pursuant to our adoption of the CECL standard and requires consideration of a broader range of reasonable and supportable forecast information to develop credit loss estimates. For prior periods, single-family loss reserves were measured using an incurred loss impairment methodology for loans that were collectively evaluated for impairment. For further details on our previous single-family loss reserves methodology, refer to “Note 1, Summary of Significant Accounting Policies” in our 2019 Form 10-K.

The table below summarizes the changes in our single-family loss reserves, excluding credit losses on our AFS securities. For a discussion of changes in our benefit (provision) for credit losses see “Consolidated Results of Operations—Credit-Related Income (Expense).”

Single-Family Loss Reserves

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
	(Dollars in millions)			
Changes in loss reserves:				
Beginning balance	**$ (12,092)**	$ (13,019)	**$ (8,779)**	$ (14,007)
Transition impact of the adoption of the CECL standard	**—**	—	**(1,231)**	—
Benefit (provision) for credit losses	**219**	1,252	**(1,951)**	1,913
Write-offs	**50**	561	**124**	947
Recoveries	**(5)**	(27)	**(19)**	(87)
Other	**40**	(6)	**68**	(5)
Ending balance	**$ (11,788)**	$ (11,239)	**$ (11,788)**	$ (11,239)
Write-offs, net of recoveries annualized, as a percentage of the average single-family conventional guaranty book of business (in bps)	0.6	7.4	0.7	5.9

	As of	
	June 30, 2020	**December 31, 2019**
Loss reserves as a percentage of single-family:		
Conventional guaranty book of business	**0.39 %**	0.30 %
Nonaccrual loans at amortized cost	**40.92**	30.58

Troubled Debt Restructurings and Nonaccrual Loans

The tables below display the single-family loans classified as TDRs that were on accrual status and single-family loans on nonaccrual status. The tables include our amortized cost in HFI and HFS single-family mortgage loans as well as interest income forgone and recognized for on-balance sheet TDRs on accrual status and nonaccrual loans. For more information on TDRs and nonaccrual loans, see “Note 3, Mortgage Loans.”

We have elected to account for eligible COVID-19-related loss mitigation activities, including forbearance plans, payment deferrals, and loan modifications, as permitted under the CARES Act, which provides relief from TDR accounting and disclosure requirements. To be eligible for this treatment, a loan must not have been more than 30 days delinquent as of December 31, 2019, and the activity must occur between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the date on which the COVID-19 pandemic national emergency terminates. Accordingly, we do not expect a significant increase in our single-family TDRs in 2020. We have also updated the application of our accounting policy for nonaccrual loans and continue to accrue interest income on delinquent loans that were current as of March 1, 2020 and negatively impacted by COVID-19. This update, combined with the elevated number of borrowers in forbearance, contributed to a significant increase in loans accruing on-balance sheet that were past due 90 days or more as of June 30, 2020. As a result, we established a valuation allowance of $169 million for expected credit losses on single-family accrued interest receivable as of June 30, 2020. See “Note 1, Summary of Significant Accounting Policies” for additional information on our accounting for TDRs and nonaccrual loans.

Single-Family TDRs on Accrual Status and Nonaccrual Loans

	As of	
	June 30, 2020	December 31, 2019
	(Dollars in millions)	
TDRs on accrual status	**$ 79,129**	$ 81,634
Nonaccrual loans	**28,810**	28,708
Total TDRs on accrual status and nonaccrual loans	**$ 107,939**	$ 110,342
Accruing on-balance sheet loans past due 90 days or more(1)	**$ 71,876**	$ 191

	For the Six Months Ended June 30,	
	2020	2019
	(Dollars in millions)	
Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans:		
Interest income forgone(2)	**$ 818**	$ 917
Interest income recognized(3)	**2,083**	2,460

(1) Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. As of June 30, 2020, the substantial majority of these loans had a COVID-19-related forbearance.

(2) Represents the amount of interest income we did not recognize, but would have recognized during the period for nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

(3) Primarily includes amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Multifamily Business

Our Multifamily business provides mortgage market liquidity primarily for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities.

This section supplements and updates information regarding our Multifamily business segment in our 2019 Form 10-K. See “MD&A—Multifamily Business” in our 2019 Form 10-K for additional information regarding the primary business activities, customers, competition and market share of our Multifamily business.

Multifamily Mortgage Market

Multifamily market fundamentals, which include factors such as vacancy rates and rents, were negatively impacted in most parts of the country throughout the second quarter of 2020 by the COVID-19 pandemic, which has resulted in higher unemployment and economic uncertainty.

- *Vacancy rates.* Based on preliminary third-party data, the estimated national multifamily vacancy rate for institutional investment-type apartment properties as of June 30, 2020 remained at 5.8%, the same as of March 31, 2020 and up from 5.3% as of June 30, 2019. We believe this is due to the limited mobility of many tenants resulting from stay-at-home orders that were in place in many metropolitan areas across the country over the past few months.

- *Rents.* Effective rents are estimated to have declined by 0.5% during the second quarter of 2020, compared to estimated increases of 0.5% during the first quarter of 2020 and 1.0% during the second quarter of 2019. We believe this is due to a softening of multifamily demand, stemming from a combination of new supply entering the market and elevated unemployment levels.

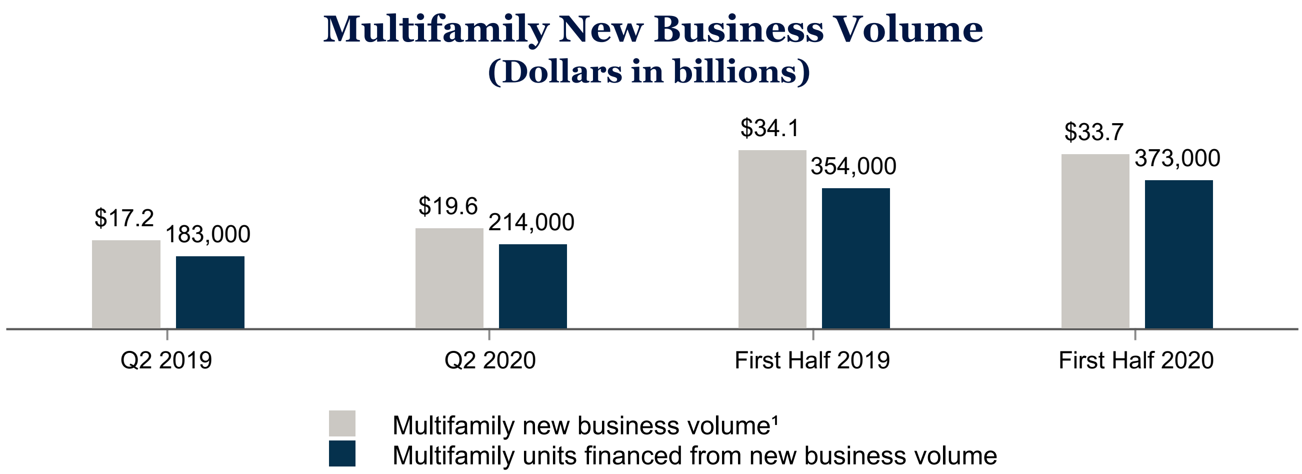
Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals helped to increase property values in most metropolitan areas. Based on current multifamily property sales data, although transaction volumes have significantly declined, property valuations in the form of capitalization rates appear to have remained stable during the second quarter of 2020. This may be due to property owners choosing to retain their multifamily properties rather than accept a discounted offer, thus keeping market capitalization rates at 2019 levels over the past three months.

Although the most recent third-party estimates indicate that approximately 470,000 new multifamily units are expected to be completed in 2020, we expect fewer new units due to lingering supply chain disruptions, coupled with the current social distancing restrictions in place on construction sites across many parts of the country.

We expect the multifamily sector to be negatively impacted in 2020 from rising vacancy rates, as well as from declining or negative rent growth due to the economic dislocation resulting from the COVID-19 pandemic.

Multifamily Business Metrics

Through the secondary mortgage market, we support rental housing for the workforce population, for senior citizens and students, and for families with the greatest economic need. Over 90% of the multifamily units we financed in the second quarter of 2020 were affordable to families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

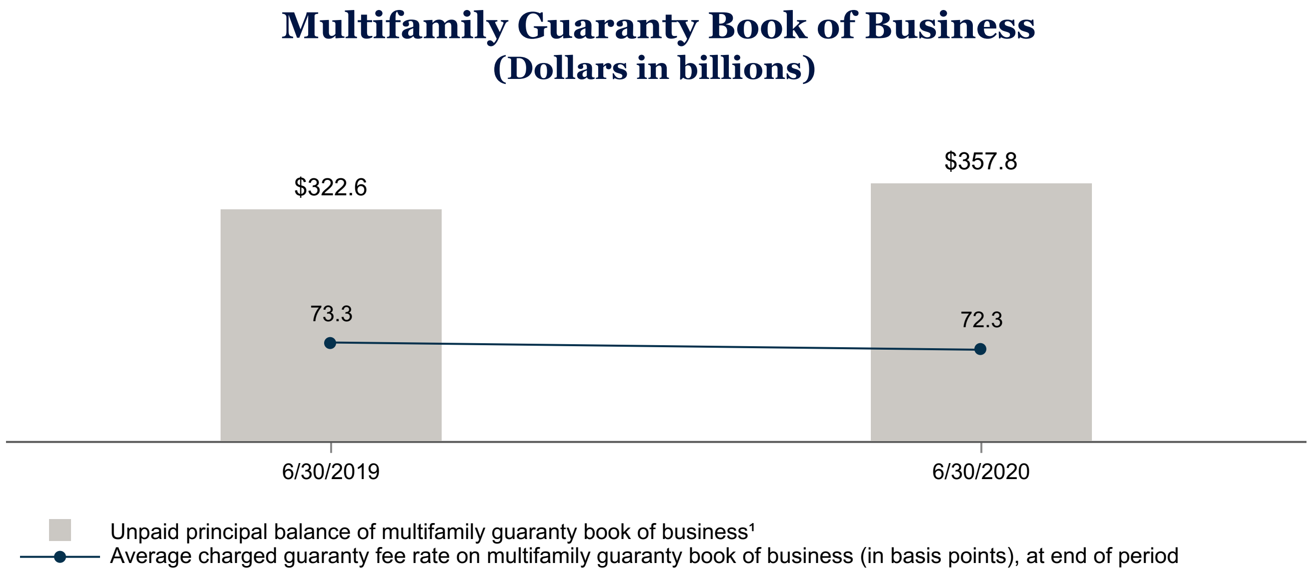


(1) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued, multifamily loans purchased, and credit enhancements provided on multifamily mortgage assets during the period.

FHFA's 2020 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below $100 billion for the five-quarter period from October 1, 2019 through December 31, 2020. In addition, FHFA directed that at least 37.5% of our multifamily business during that time period must be mission-driven, affordable housing, pursuant to FHFA's guidelines for mission-driven loans. Our multifamily new business volume was $18.1 billion for the fourth quarter of 2019 and $33.7 billion for the first half of 2020, leaving $48.2 billion of capacity remaining under our current multifamily volume cap for the remainder of 2020.

Presentation of Our Multifamily Guaranty Book of Business

For purposes of the information reported in this "Multifamily Business" section, we measure our multifamily guaranty book of business using the unpaid principal balance of mortgage loans underlying Fannie Mae MBS. By contrast, the multifamily guaranty book of business presented in the "Composition of Fannie Mae Guaranty Book of Business" table in the "Guaranty Book of Business" section is based on the unpaid principal balance of Fannie Mae MBS outstanding, rather than the unpaid principal balance of the underlying mortgage loans. These amounts differ primarily as a result of payments we receive on underlying loans that have not yet been remitted to the MBS holders. As measured for purposes of the information reported below, the following chart displays our multifamily guaranty book of business.



(1) Our multifamily guaranty book of business primarily consists of multifamily mortgage loans underlying Fannie Mae MBS outstanding, multifamily mortgage loans of Fannie Mae held in our retained mortgage portfolio, and other credit enhancements that we provide on multifamily mortgage assets. It does not include non-Fannie Mae multifamily mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

Average charged guaranty fee represents our effective revenue rate relative to the size of our multifamily guaranty book of business. Management uses this metric to assess the reasonableness of our annual compensation rate for the multifamily credit risk we manage.

Multifamily Business Financial Results[(1)]

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2020	2019	Variance	2020	2019	Variance
			(Dollars in millions)			
Net interest income	**$ 838**	$ 808	$ 30	**$ 1,644**	$ 1,565	$ 79
Fee and other income	**19**	25	(6)	**45**	53	(8)
Net revenues	**857**	833	24	**1,689**	1,618	71
Fair value gains, net	**12**	4	8	**196**	60	136
Administrative expenses	**(129)**	(110)	(19)	**(249)**	(223)	(26)
Credit-related expense[(2)]	**(238)**	(29)	(209)	**(651)**	(37)	(614)
Credit enhancement expense	**(53)**	(47)	(6)	**(113)**	(93)	(20)
Change in expected credit enhancement recoveries[(3)]	**65**	—	65	**195**	—	195
Other income (expenses), net[(4)]	**44**	30	14	**(17)**	74	(91)
Income before federal income taxes	**558**	681	(123)	**1,050**	1,399	(349)
Provision for federal income taxes	**(113)**	(120)	7	**(212)**	(263)	51
Net income	**$ 445**	$ 561	$ (116)	**$ 838**	$ 1,136	$ (298)

(1) See "Note 1, Summary of Significant Accounting Policies" for more information about the change in presentation of our yield maintenance fees. Prior period amounts have been adjusted to reflect the current year change in presentation.

(2) Consists of the benefit or provision for credit losses and foreclosed property income or expense. The presentation of our credit-related expense for the three and six months ended June 30, 2019 represents amounts recognized prior to our transition to the lifetime loss model prescribed by the CECL standard.

(3) Consists of change in benefits recognized from our freestanding credit enhancements that primarily relates to our Delegated Underwriting and Servicing ("DUS®") lender risk-sharing. See "Note 1, Summary of Significant Accounting Policies" for more information about our change in presentation.

(4) Consists of investment gains or losses, gains or losses from partnership investments, debt extinguishment gains or loss and other income or expenses.

Net Interest Income

Multifamily net interest income is primarily driven by guaranty fee income. Guaranty fee income increased in the second quarter and first half of 2020 as compared with the second quarter and first half of 2019 as a result of growth in the size of our multifamily guaranty book of business, partially offset by a slight decrease in average charged guaranty fees on the multifamily guaranty book.

Fair Value Gains, Net

Depending on portfolio activity, our multifamily mortgage commitment derivatives may be in a net-buy or net-sell position during any given period. Fair value gains in the first half of 2020 and the first half of 2019 were primarily driven by gains on commitments to buy multifamily mortgage-related securities as a result of increases in prices as interest rates declined during the commitment periods.

Credit-Related Expense

Credit-related expense for the second quarter and first half of 2020 was primarily driven by an increase in our allowance for loan losses due to losses we expect to incur as a result of the COVID-19 pandemic using an expected lifetime loss methodology consistent with our implementation of the CECL standard.

See “Consolidated Results of Operations—Credit-Related Income (Expense)” in this report for more information on our multifamily provision for credit losses.

Other Income (Expenses), Net

Other income (expense), net decreased in the first half of 2020 as compared with the first half of 2019 due to higher debt extinguishment losses, driven by the interest rate environment, and lower investment gains.

Multifamily Mortgage Credit Risk Management

This section updates our discussion of multifamily mortgage credit risk management in our 2019 Form 10-K in “MD&A—Multifamily Business—Multifamily Mortgage Credit Risk Management.”

Multifamily Acquisition Policy and Underwriting Standards

Our standards for multifamily loans specify maximum original LTV ratio and minimum original debt service coverage ratio (“DSCR”) values that vary based on loan characteristics. Our experience has been that original LTV ratio and DSCR values have been reliable indicators of future credit performance. At underwriting, we evaluate the DSCR based on both actual and underwritten debt service payments. The original DSCR is calculated using the underwritten debt service payments for the loan, which assumes both principal and interest payments, rather than the actual debt service payments. Depending on the loan’s interest rate and structure, using the underwritten debt service payments may result in a more conservative estimate of the debt service payments (for example, loans with an interest-only period). This approach is used for all loans, including those with full and partial interest-only terms.

To address possible fluctuations in borrower income and expenses resulting from the COVID-19 pandemic, we instituted additional reserve requirements for certain new multifamily loan acquisitions depending on the product type, as well as LTV ratios and DSCRs.

Key Risk Characteristics of Multifamily Guaranty Book of Business

	As of		
	June 30, 2020	**December 31, 2019**	**June 30, 2019**
Weighted average original LTV ratio	**66** %	66 %	66 %
Original LTV ratio greater than 80%	**1**	1	1
Original DSCR less than or equal to 1.10	**11**	11	11
Full interest-only loans	**29**	27	26
Partial interest-only loans[(1)]	**51**	51	49

(1) Consists of mortgage loans that were underwritten with an interest-only term, regardless of whether the loan is currently in its interest-only period.

We provide additional information on the credit characteristics of our multifamily loans in quarterly financial supplements, which we furnish to the SEC with current reports on Form 8-K. Information in our quarterly financial supplements is not incorporated by reference into this report.

Transfer of Multifamily Mortgage Credit Risk

Lender risk-sharing is a cornerstone of our Multifamily business. We primarily transfer risk through our DUS program, which delegates to DUS lenders the ability to underwrite and service multifamily loans, in accordance with our standards and requirements. DUS lenders receive credit risk-related revenues for their respective portion of credit risk retained, and, in turn, are required to fulfill any loss-sharing obligation. This aligns the interests of the lender and Fannie Mae throughout the life of the loan.

Our DUS model typically results in our lenders sharing on a pro-rata or tiered basis approximately one-third of the credit risk on our multifamily loans. As of June 30, 2020, 99% of the unpaid principal balance in our multifamily guaranty book of business had this front-end lender risk-sharing arrangement, compared with 98% as of December 31, 2019.

To complement our front-end lender risk-sharing arrangements, we have engaged in back-end credit risk transfer transactions through our Multifamily CIRT™ ("MCIRT™") and Multifamily Connecticut Avenue Securities® ("MCAS™") transactions. Through these transactions, we transfer a portion of credit risk associated with Fannie Mae losses on a reference pool of multifamily mortgage loans.

While we were able to enter into both an MCIRT and an MCAS transaction in the first quarter of 2020, we did not enter into credit risk transfer transactions in the second quarter of 2020 due to continuing adverse market conditions resulting from the COVID-19 pandemic. In addition, we currently do not have plans to engage in additional credit risk transfer transactions as we evaluate FHFA's re-proposed capital rule, which would reduce the amount of capital relief we obtain from these transactions. We will continue to review our plans, which may be affected by our evaluation of the proposed capital rule and changes in the rule as it is finalized, the strength of future market conditions, and our review of our overall business and capital plan to enable us to exit conservatorship. We expect to continue entering into front-end lender risk-sharing arrangements, primarily through our DUS program. See "Risk Factors" in this report for additional information on the risks associated with the constraints on our entering into new credit risk transfer transactions and "Legislation and Regulation" for more information on FHFA's proposed capital rule.

The table below displays the number of transactions and unpaid principal balance of multifamily mortgage loans covered by a back-end credit risk transfer transaction at the time of issuance. The table also includes the total unpaid principal balance of multifamily loans and percentage of our multifamily guaranty book of business that are covered by a back-end credit risk transfer transaction. The table does not reflect front-end lender risk-sharing arrangements, as only a small portion of our multifamily guaranty book of business does not include these arrangements.

Multifamily Loans in Back-End Credit Risk Transfer Transactions

	For the Six Months Ended June 30, 2020		Since Inception	
	Number of Back-End Credit Risk Transfer Transactions	Unpaid Principal Balance Covered at Issuance	Number of Back-End Credit Risk Transfer Transactions	Unpaid Principal Balance Covered at issuance
	(Dollars in millions)			
MCIRT	1	$ 8,720	8	$ 80,617
MCAS	1	12,212	2	29,293
Total	2	$ 20,932	10	$ 109,910

	As of June 30, 2020		As of December 31, 2019	
	Unpaid Principal Balance	Percentage of Multifamily Guaranty Book of Business	Unpaid Principal Balance	Percentage of Multifamily Guaranty Book of Business
	(Dollars in millions)			
MCIRT	**$ 74,079**	**21 %**	$ 66,851	20 %
MCAS	**29,162**	**8**	17,077	5
Total	**$ 103,241**	**29 %**	$ 83,928	25 %

For more information on our multifamily credit-risk sharing transactions and their impact on our conservatorship capital requirements, see "MD&A—Multifamily Business—Multifamily Mortgage Credit Risk Management" in our 2019 Form 10-K.

Multifamily Portfolio Diversification and Monitoring

Diversification within our multifamily book of business by geographic concentration, term to maturity, interest rate structure, borrower concentration, loan size and credit enhancement coverage, are important factors that influence credit performance and help reduce our credit risk.

As part of our ongoing credit risk management process, we and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the loan term at the asset and portfolio level. We require lenders to provide quarterly and annual financial updates for the loans for which we are contractually entitled to receive such information. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 2% as of June 30, 2020 and December 31, 2019. Our estimates of current DSCRs are based on the latest available income information for these properties and exclude co-op loans. Although we use the most recently available results from our multifamily borrowers, there is a lag in reporting, which typically can range from three to six months, but in some cases may be longer. As a result, the financial information we have received from borrowers to date have largely not reflected the impact of COVID-19.

In addition to the factors discussed above, we track the following credit risk characteristics to determine loan credit quality indicators, which are the internal risk categories we use and which are further discussed in “Note 3, Mortgage Loans:”

- the physical condition of the property;
- delinquency status;
- the relevant local market and economic conditions that may signal changing risk or return profiles; and
- other risk factors.

For example, we closely monitor the rental payment trends and vacancy levels in local markets, as well as capitalization rates, to identify loans that merit closer attention or loss mitigation actions. We manage our exposure to refinancing risk for multifamily loans maturing in the next several years. We have a team that proactively manages upcoming loan maturities to minimize losses on maturing loans. This team assists lenders and borrowers with timely and appropriate refinancing of maturing loans with the goal of reducing defaults and foreclosures related to these loans. The primary asset management responsibilities for our multifamily loans are performed by our DUS and other multifamily lenders. We periodically evaluate these lenders’ performance for compliance with our asset management criteria.

Multifamily Problem Loan Management and Foreclosure Prevention

Delinquency Statistics on our Problem Loans

The percentage of our multifamily loans classified as substandard increased as of June 30, 2020 due to loans in a COVID-19-related forbearance. Substandard loans are loans that have a well-defined weakness that could impact their timely full repayment. While the majority of the substandard loans in our multifamily guaranty book of business are currently making timely payments or are in forbearance, we continue to monitor the performance of the full substandard loan population. For more information on our credit quality indicators, including our population of substandard loans, see “Note 3, Mortgage Loans.”

The multifamily serious delinquency rate increased to 1.00% as of June 30, 2020, compared with 0.04% as of December 31, 2019 and 0.05% as of June 30, 2019, due to the economic dislocation caused by the COVID-19 pandemic, which increased borrower participation in forbearance plans. Our multifamily seriously delinquent rate consists of multifamily loans that were 60 days or more past due based on unpaid principal balance expressed as a percentage of our multifamily guaranty book of business. Based on unpaid principal balance, $3.3 billion of multifamily seriously delinquent loans were in forbearance as of June 30, 2020. Our multifamily seriously delinquent rate excluding loans in forbearance was 0.09% as of June 30, 2020.

COVID-19 Forbearance and Eviction Moratorium

We initially offered forbearance relief to multifamily borrowers by delegating to our lenders the authority to execute a forbearance agreement with a multifamily borrower experiencing a documented financial hardship due to the COVID-19 pandemic for up to three monthly payments, beginning with the first missed monthly payment occurring after February 1, 2020. Effective July 1, 2020, we delegated to our lenders the ability to extend forbearance for up to three additional monthly payments, except for certain types of loans, including seniors housing loans and loans with unpaid principal balances above $50 million. For those loans, Fannie Mae will make decisions on extended forbearance relief directly. For forbearance of any duration after July 1, 2020, the borrower is required to bring the loan current within a time period determined by multiplying the number of months of forbearance by four. For example, if a borrower receives a six-month forbearance period, the borrower would be required to make all missed payments over a period of 24 months. The borrower may also repay the missed payments in a lump sum at any time. In exchange for forbearance under our initial or extended program, borrowers must agree to suspend tenant evictions for nonpayment of rent, provide monthly operating statements and remit any excess cash flow to our servicers on a monthly basis, to be held until the end of the forbearance period and then applied to missed mortgage payments. Effective July 1, 2020, borrowers with new or extended forbearance agreements must also provide additional renter protections and certify their compliance with all tenant protections in writing on a monthly basis.

Multifamily Loans in Forbearance

The following table displays multifamily loans in a payment forbearance. As of June 30, 2020, nearly all of the multifamily loans in a payment forbearance were associated with a COVID-19-related financial hardship. Seniors housing loans, which constituted 5% of our multifamily guaranty book of business as of June 30, 2020, comprised nearly half of the total multifamily unpaid principal balance of loans in forbearance.

Multifamily Loans in Forbearance

	As of	
	June 30, 2020	**December 31, 2019**
	(Dollars in millions)	
Number of loans	**281**	6
Amortized cost	**$ 4,335**	$ 16
Unpaid principal balance	**$ 4,288**	$ 15
Percentage of multifamily guaranty book of business based on unpaid principal balance	**1.2 %**	*

* Represents less than 0.05% of multifamily guaranty book of business.

The following table displays interest income recognized on multifamily loans in forbearance held as of period end. As discussed in "Note 1, Summary of Significant Accounting Policies," we have updated our application of our accounting policy for nonaccrual for loans negatively impacted by the COVID-19 pandemic. For loans that were current as of March 1, 2020 and subsequently become delinquent, we will continue to accrue interest income according to the updated policy. The amount of interest income we recognized on loans in forbearance was not material for the three and six months ended June 30, 2019, which was prior to the update to our application of our nonaccrual policy.

Interest Income Recognized on Multifamily Loans in Forbearance

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	(Dollars in millions)	
Interest income recognized on loans in forbearance held as of period end[(1)]	$ 39	$ 81

(1) Represents interest income recognized on these loans during the period, including amounts recognized prior to entry into a forbearance arrangement.

REO Management

The number of multifamily foreclosed properties held for sale was 14 properties with a carrying value of $99 million as of June 30, 2020, compared with 12 properties with a carrying value of $72 million as of December 31, 2019.

Other Multifamily Credit Information

Multifamily Credit Loss Performance Metrics

The amount of credit loss or income we realize in a given period is driven by foreclosures, pre-foreclosure sales, REO activity and write-offs, net of recoveries. Our credit loss performance metrics are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. We believe our credit losses and our credit losses, net of loss-sharing benefit, may be useful to stakeholders because they display our credit losses in the context of our guaranty book of business, including the benefit we receive from loss-sharing arrangements. Management views credit losses net of loss-sharing benefit as a key metric related to our business model and our strategy to share credit risk.

The table below displays the components of our multifamily credit loss performance metrics, as well as our multifamily initial write-off severity rate. Our multifamily guaranty book of business has experienced very low levels of write-offs in the past several years, which in some periods has resulted in credit income rather than losses, and drives variability in our write-off severity rate.

Multifamily Credit Loss Performance Metrics

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
	(Dollars in millions)			
Write-offs[1]	**$ 2**	$ (4)	**$ (18)**	$ (4)
Recoveries	**—**	2	**1**	2
Foreclosed property income (expense)	**(7)**	(2)	**(9)**	1
Credit losses	**(5)**	(4)	**(26)**	(1)
Freestanding loss-sharing benefit[2]	**—**	N/A	**3**	N/A
Credit losses net of freestanding loss-sharing benefit	**$ (5)**	$ (4)	**$ (23)**	$ (1)
Credit loss ratio[3] (in bps)	**0.6**	0.5	**1.5**	0.1
Credit loss ratio, net of freestanding loss-sharing benefit[2][3] (in bps)	**0.6**	N/A	**1.3**	N/A
Initial write-off severity rate[4]	**8.2 %**	23.0 %	**17.4 %**	23.0 %
Loan write-off count	**3**	3	**6**	3

(1) Includes write-offs related to loans pursuant to Accounting Bulletin 2012-02. Write-offs associated with non-REO sales are net of loss sharing.

(2) Represents expected benefits that we receive upon foreclosure as a result of certain freestanding credit enhancements, primarily multifamily DUS lender risk-sharing transactions. These benefits are recorded in "Change in expected credit enhancement recoveries" in our condensed consolidated statements of operations. Prior to the adoption of the CECL standard, benefits from lender risk-sharing transactions were included in the benefit (provision) for credit losses in our condensed consolidated statements of operations and comprehensive income.

(3) Calculated based on the annualized amount of credit income (losses), and credit losses net of freestanding loss-sharing benefit, divided by the average multifamily guaranty book of business during the period.

(4) Rate is calculated as the initial write-off amount divided by the average defaulted unpaid principal balance. The rate includes write-offs pursuant to the provisions of the Advisory Bulletin and excludes any costs, gains or losses associated with REO after initial acquisition through final disposition. Write-offs are net of lender loss sharing agreements. Recoveries primarily include amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

We expect our multifamily credit losses will be higher over the long term as a result of the COVID-19 pandemic as reflected in our increased allowance for loan losses since the inception of the pandemic. However, we do not expect our multifamily credit losses to increase significantly in the short term while loans remain in forbearance as described above. See "Risk Factors" for additional information on the credit risk impact of the COVID-19 pandemic.

Multifamily Loss Reserves

Our multifamily loss reserves, which include our allowances for loan losses and the related accrued interest receivable, and our reserve for guaranty losses, provide for an estimate of credit losses in our multifamily guaranty book of business. For periods beginning January 1, 2020, our measurement of loss reserves reflects a lifetime credit loss methodology pursuant to our adoption of the CECL standard and requires consideration of a broader range of reasonable and supportable forecast information to develop credit loss estimates. For prior periods, multifamily loss reserves were measured using an incurred loss methodology. For further details on our previous multifamily loss reserves methodology, refer to "Note 1, Summary of Significant Accounting Policies" in our 2019 Form 10-K.

The table below summarizes the changes in our multifamily loss reserves, excluding credit losses on our AFS securities. For a discussion of changes in our provision for credit losses see "Consolidated Results of Operations—Credit-Related Income (Expense)."

Multifamily Loss Reserves

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Changes in loss reserves:				
Beginning balance	**$ (1,149)**	$ (256)	**$ (268)**	$ (245)
Transition impact of the adoption of the CECL standard[1]	**—**	—	**(490)**	—
Provision for credit losses	**(231)**	(27)	**(641)**	(38)
Write-offs	**(2)**	4	**18**	4
Recoveries	**—**	(2)	**(1)**	(2)
Ending balance	**$ (1,382)**	$ (281)	**$ (1,382)**	$ (281)
Expected benefit of freestanding credit enhancements on multifamily loans not netted against loss reserves as of the end of the period[2]			**$ 413**	N/A

	As of	
	June 30, 2020	December 31, 2019
Loss reserves as a percentage of multifamily guaranty book of business	**0.39 %**	0.08 %

(1) Includes the transition impact of $221 million for the reclassification of freestanding credit enhancements, such as DUS lender risk-sharing, to "Other assets" from "Allowance for loan losses" on our condensed consolidated balance sheets.

(2) Prior to our adoption of the CECL standard, benefits for freestanding credit enhancements were netted against our multifamily loss reserves, which was $96 million as of June 30, 2019. As of January 1, 2020 these credit enhancements are recorded in "Other assets" in our condensed consolidated balance sheets.

Troubled Debt Restructurings and Nonaccrual Loans

The table below displays the multifamily loans classified as TDRs that were on accrual status and multifamily loans on nonaccrual status. The table includes our amortized cost in HFI mortgage loans, as well as interest income forgone and recognized for on-balance sheet TDRs on accrual status and nonaccrual loans. For more information on TDRs and nonaccrual loans see "Note 3, Mortgage Loans."

We have elected to account for eligible COVID-19-related loss mitigation activities as permitted under the CARES Act, which provides relief from TDR accounting and disclosure requirements for our forbearance plans and loan modifications. See "Note 1, Summary of Significant Accounting Policies" for additional information on our accounting for TDRs and nonaccrual loans.

Multifamily TDRs on Accrual Status and Nonaccrual Loans

	As of	
	June 30, 2020	December 31, 2019
	(Dollars in millions)	
TDRs on accrual status	**$ 33**	$ 66
Nonaccrual loans[1]	**320**	439
Total TDRs on accrual status and nonaccrual loans	**$ 353**	$ 505
Accruing on-balance sheet loans past due 90 days or more[1]	**$ 1,447**	$ —

	For the Six Months Ended June 30,	
	2020	**2019**
	(Dollars in millions)	
Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans:		
Interest income forgone[(2)]	**$ 4**	$ 12
Interest income recognized[(3)]	**2**	1

(1) As of January 1, 2020, we place a multifamily loan on nonaccrual status when the loan becomes two months or more past due according to its contractual terms unless the loan is well secured such that collectability of principal and accrued interest is reasonably assured. As a result, the population of loans classified as nonaccrual declined as a substantial amount of these loans were current and had been previously individually impaired, but were not two months or more past due, contributing to the decrease in loans on nonaccrual status. In the second quarter of 2020, we updated our application of our nonaccrual accounting policy for those loans negatively impacted by the COVID-19 pandemic. For loans that were current as of March 1, 2020 and subsequently become delinquent, we will continue to accrue interest income according to our updated policy. These loans are not classified as nonaccrual. See "Note 1, Summary of Significant Accounting Policies" for more information about our nonaccrual policy.

(2) Represents the amount of interest income we did not recognize, but would have recognized during the period for nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

(3) Represents interest income recognized during the period, including the amortization of any deferred cost basis adjustments, for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period. Primarily includes amounts accrued while the loans were performing.

Liquidity and Capital Management

Liquidity Management

This section supplements and updates information regarding liquidity management in our 2019 Form 10-K. See "MD&A—Liquidity and Capital Management—Liquidity Management" in our 2019 Form 10-K for additional information, including discussions of our primary sources and uses of funds, our liquidity and funding risk management practices and contingency planning, factors that influence our debt funding activity, factors that may impact our access to or the cost of our debt funding and factors that could adversely affect our liquidity and funding. Also see "Risk Factors—Liquidity and Funding Risk" in our 2019 Form 10-K and "Risk Factors" in this report for a discussion of liquidity and funding risks, including potential impacts of the COVID-19 pandemic.

Liquidity and Funding Risk Management Practices and Contingency Planning

We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. Our liquidity management framework and practices require that we maintain:

- a portfolio of highly liquid securities to cover a minimum of 30 calendar days of expected net cash needs, assuming no access to the short- and long-term unsecured debt markets;
- within our other investments portfolio a daily balance of U.S. Treasury securities and/or cash with the Federal Reserve Bank of New York that has a redemption amount of at least 50% of our average projected 30-day cash needs over the previous three months; and
- a liquidity profile that meets or exceeds our projected 365-day net cash needs with liquidity holdings and unencumbered agency mortgage securities.

In June 2020, FHFA directed that we and Freddie Mac comply with updated prescriptive liquidity requirements. We expect the effective date for this new guidance to be September 1, 2020. FHFA's directive requires us to hold more liquid assets than are required under our current metrics. While we estimate that our liquidity position as of June 30, 2020 meets these new requirements, we will in the future be required to hold more liquidity than we would have under our current framework, which we expect will negatively impact our net interest income.

The guidance has four components we must meet:

- a 30-day cash flow stress test that assumes we continue to provide liquidity to the market while holding a $10 billion buffer above outflows;
- a 365-day metric that requires us to hold liquidity to meet our expected cash outflows over 365 days and to continue to provide liquidity to the market under certain stress conditions. This metric is also more prescriptive regarding the types of liquid assets we hold;

- a specified minimum long-term debt to less-liquid asset ratio. Less-liquid assets are those that are not eligible to be pledged as collateral to the Fixed Income Clearing Corporation; and
- a requirement that we fund our assets with liabilities that have a specified minimum term relative to the term of the assets.

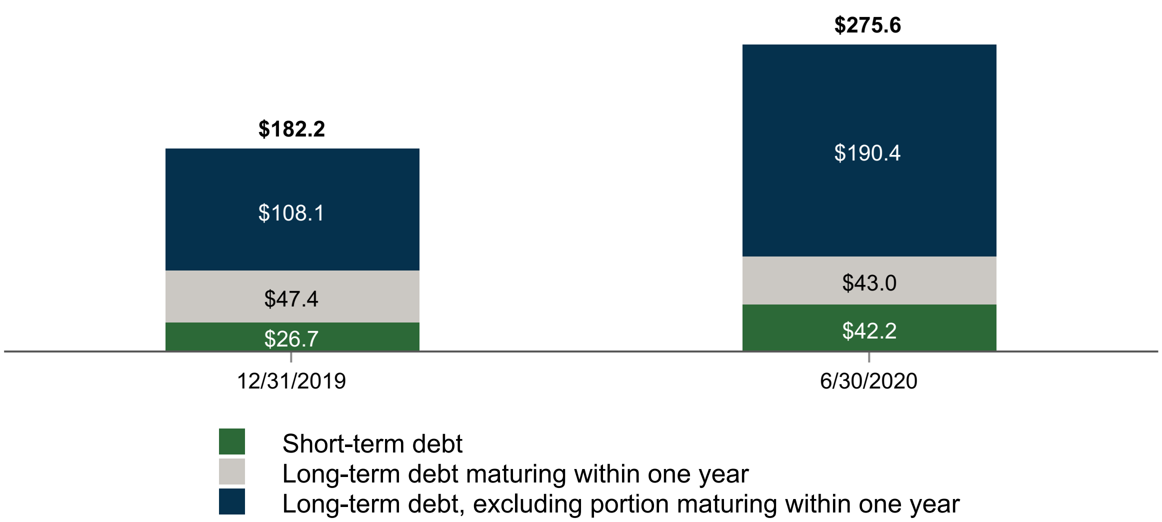
Debt Funding

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt and excludes debt of consolidated trusts. Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year.

The following chart and table display information on our outstanding short-term and long-term debt based on original contractual maturity. The increase in our short-term and long-term debt from December 31, 2019 to June 30, 2020 was primarily to support refinancing activity and in anticipation of future potential liquidity needs as a result of market dislocations caused by the COVID-19 pandemic, as discussed below. The increase in long-term debt also anticipates a future increase in the volume of delinquent loans that will need to be purchased out of trust.

Debt of Fannie Mae[1]
(Dollars in billions)



Selected Debt Information

	As of	
	June 30, 2020	December 31, 2019
	(Dollars in billions)	
Selected Weighted-Average Interest Rates[1]		
Interest rate on short-term debt	**0.28 %**	1.56 %
Interest rate on long-term debt, including portion maturing within one year	**1.68 %**	2.86 %
Interest rate on callable long-term debt	**2.81 %**	3.39 %
Selected Maturity Data		
Weighted-average maturity of debt maturing within one year (in days)	**163**	137
Weighted-average maturity of debt maturing in more than one year (in months)	**45**	66
Other Data		
Outstanding callable long-term debt	**$ 27.4**	$ 38.5
Connecticut Avenue Securities debt[2]	**$ 17.8**	$ 21.4

(1) Outstanding debt amounts and weighted-average interest rates reported in this chart and table include the effects of discounts, premiums, other cost basis and fair value adjustments associated with debt that we elected to carry at fair value. Reported amounts include unamortized cost basis adjustments and fair value adjustments of $447 million and $28 million as of June 30, 2020 and December 31, 2019, respectively.

(2) Represents CAS debt issued prior to November 2018. See "Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions" in our 2019 Form 10-K and in this report for information regarding our Connecticut Avenue Securities.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities and cash from business operations.

Debt Funding Activity

The market dislocations relating to the COVID-19 pandemic have affected both our debt funding needs and debt funding activity. We significantly increased our debt issuances in the first half of 2020 due to increased volume in the whole loan conduit driven by a significant increase in refinance activity in the first half of the year, to pay off callable debt, and in anticipation of potential future liquidity needs. Adverse market conditions in March limited our ability to issue debt with a maturity greater than two years. As a result, most of the debt we issued in the first quarter of 2020 had terms from three to twenty-four months. Market conditions improved in the second quarter of 2020 and we were able to issue notes with maturities greater than 24 months. If market conditions deteriorate again and limit our ability to issue longer-term debt, we may need to fund longer-term assets with short-term debt, which would increase the roll-over risk on our outstanding debt. See "Risk Factors" for additional information on the impact of the COVID-19 pandemic on our liquidity risk.

We expect our debt funding needs to increase in future periods. We expect the impact of the COVID-19 pandemic and significantly higher rates of loan delinquencies, forbearances and other loss mitigation activity will require us to fund:

- greater amounts of tax and insurance payments and, for loans in forbearance that back MBS trusts, principal and interest payments to the MBS trusts, after borrowers have missed four months of payments;
- purchases of a larger volume of delinquent loans from MBS trusts;
- whole loan conduit activity, which may remain at a high volume; and
- greater holdings of liquid assets to comply with the new liquidity requirements recently issued by FHFA.

See "Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Problem Loan Management—Principal and Interest Payments while Loans are in Forbearance" for information on advances of scheduled principal and interest payments to MBS trusts while loans are in forbearance.

Pursuant to the terms of our senior preferred stock purchase agreement with Treasury, our aggregate indebtedness may not exceed $300 billion and our mortgage assets may not exceed $250 billion without Treasury's prior written consent. FHFA has directed that we further cap our mortgage assets at $225 billion, as described in "Business—Conservatorship, Treasury Agreements and Housing Finance Reform—Treasury Agreements" in our 2019 Form 10-K. As described above, we expect our debt funding needs to increase. Depending on the extent of these funding needs, including the amount of mortgage loans we purchase from MBS trusts, we may be required to obtain FHFA's and Treasury's prior written consent to increase our current debt limit and mortgage asset limit. Depending on the extent of our funding needs and the amount, if any, by which Treasury and FHFA agree to any request we make for an increase in our debt limit, our business activities and our ability to meet our objectives may be constrained.

The table below displays activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. Activity in short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity in long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year. The reported amounts of debt issued and paid off during each period represent the face amount of the debt at issuance and redemption.

The decrease in short-term debt issued and paid off during the second quarter and first half of 2020 compared with the second quarter and first half of 2019 was primarily driven by a reduction in the utilization of short-term notes including short-term notes with overnight maturities. The increase in long-term debt issued during the second quarter and first half of 2020 compared with the second quarter and first half of 2019 was due to increased volume in the whole loan conduit driven by a significant increase in refinance activity and in anticipation of potential future liquidity needs. The increase in long-term debt that was paid off during the second quarter and first half of 2020 compared with the second quarter and first half of 2019 was driven by increased redemptions of callable debt due to a lower interest rate environment as well as an increase in maturities of non-callable debt.

Activity in Debt of Fannie Mae

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	**$ 7,938**	$134,858	**$167,961**	$256,768
Weighted-average interest rate	**0.12 %**	2.37 %	**1.19 %**	2.36 %
Long-term:[1]				
Amount	**$ 82,913**	$ 4,800	**$122,231**	$ 11,395
Weighted-average interest rate	**0.40 %**	2.42 %	**0.49 %**	2.54 %
Total issued:				
Amount	**$ 90,851**	$139,658	**$290,192**	$268,163
Weighted-average interest rate	**0.37 %**	2.38 %	**0.90 %**	2.37 %
Paid off during the period:[2]				
Short-term:				
Amount	**$ 24,069**	$134,902	**$152,861**	$258,628
Weighted-average interest rate	**0.93 %**	2.24 %	**1.43 %**	2.17 %
Long-term:[1]				
Amount	**$ 19,799**	$ 9,100	**$ 43,963**	$ 24,910
Weighted-average interest rate	**1.75 %**	1.83 %	**1.83 %**	1.78 %
Total paid off:				
Amount	**$ 43,868**	$144,002	**$196,824**	$283,538
Weighted-average interest rate	**1.30 %**	2.22 %	**1.52 %**	2.14 %

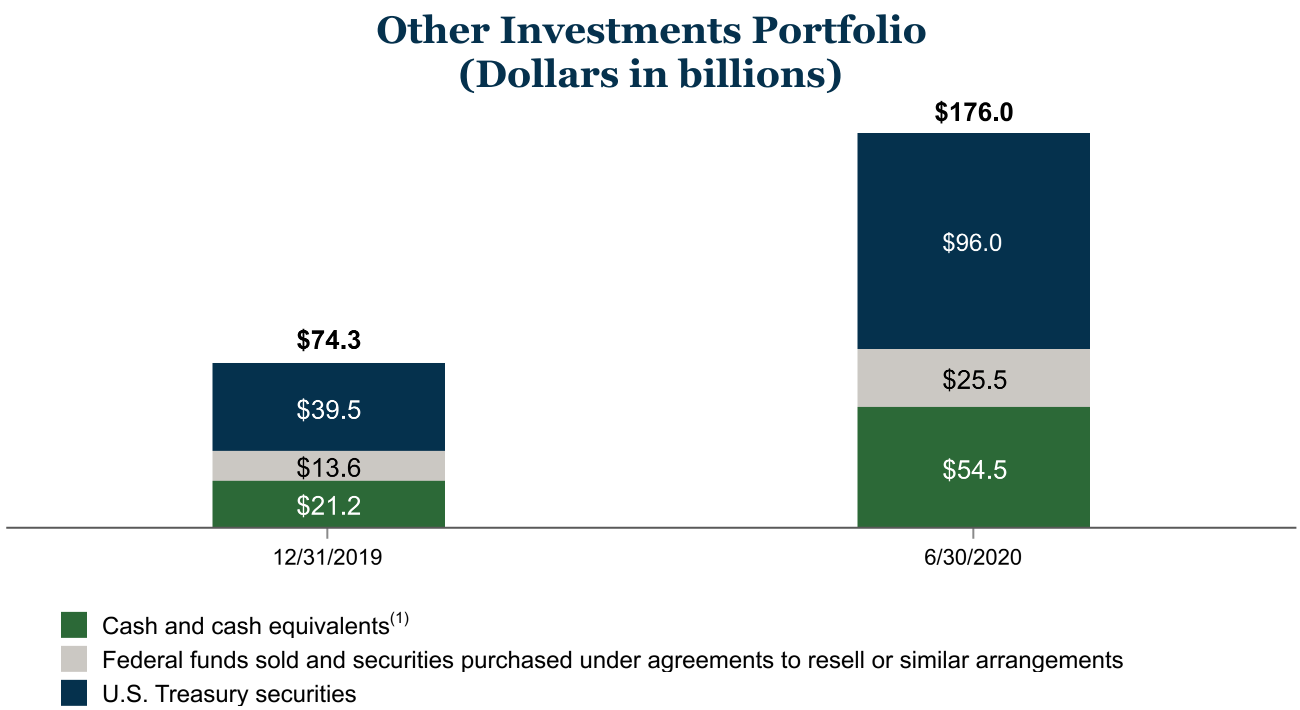
(1) Includes credit risk-sharing securities issued as CAS debt prior to November 2018. For information on our credit risk transfer transactions, see “Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Credit Enhancement and Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions” in our 2019 Form 10-K and in this report.

(2) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Other Investments Portfolio

The chart below displays information on the composition of our other investments portfolio. The balance of our other investments portfolio fluctuates as a result of changes in our cash flows, liquidity in the fixed-income markets, and our liquidity risk management framework and practices.

Our other investments portfolio increased significantly during the six months ended June 30, 2020 due primarily to an increase in our investment in U.S. Treasury securities and in cash and cash equivalents driven by proceeds from increased debt issuances to support higher refinance activity in the whole loan conduit and potential future liquidity needs as described above, as well as proceeds from loan payoffs.



(1) Cash equivalents are comprised of overnight repurchase agreements and U.S. Treasuries that have a maturity at the date of acquisition of three months or less.

Cash Flows

Six Months Ended June 30, 2020. Cash, cash equivalents and restricted cash increased from $61.4 billion as of December 31, 2019 to $120.2 billion as of June 30, 2020. The increase was primarily driven by cash inflows from (1) proceeds from repayments and sales of loans, (2) the sale of Fannie Mae MBS to third parties, and (3) the issuance of funding debt, which outpaced redemptions, primarily for the reasons described above.

Partially offsetting these cash inflows were cash outflows primarily from (1) payments on outstanding debt of consolidated trusts and (2) purchases of loans held for investment.

Six Months Ended June 30, 2019. Cash, cash equivalents and restricted cash increased from $49.4 billion as of December 31, 2018 to $61.0 billion as of June 30, 2019. The increase was primarily driven by cash inflows from the sale of Fannie Mae MBS to third parties and the net decrease in federal funds sold and securities purchased under agreements to resell or similar agreements.

Partially offsetting these cash inflows were cash outflows from purchases of loans held for investment and the redemption of funding debt, which outpaced issuances, due to lower funding needs.

Credit Ratings

Our credit ratings from the major credit ratings organizations, as well as the credit ratings of the U.S. government, are primary factors that could affect our ability to access the capital markets and our cost of funds. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. Standard & Poor's Global Ratings ("S&P"), Moody's Investors Services ("Moody's") and Fitch Ratings Limited ("Fitch") have all indicated that, if they were to lower the sovereign credit ratings on the U.S., they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities. In addition, actions by governmental entities impacting Treasury's support for our business or our debt securities could adversely affect the credit ratings of our senior unsecured debt. See "Risk Factors—

Liquidity and Funding Risk" in our 2019 Form 10-K for a discussion of the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts.

The table below displays the credit ratings issued by the three major credit rating agencies.

Fannie Mae Credit Ratings

	June 30, 2020		
	S&P	**Moody's**	**Fitch**
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Preferred stock	D	Ca	C/RR6
Outlook	Stable	Stable	Stable
	(for Long-Term Senior Debt)		(for AAA rated Long-Term Issuer Default Ratings)

We have no covenants in our existing debt agreements that would be violated by a downgrade in our credit ratings. However, in connection with certain derivatives counterparties, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event that our senior unsecured debt ratings are downgraded.

Capital Management

Regulatory Capital

The deficit of our core capital over statutory minimum capital was $131.2 billion as of June 30, 2020 and $128.8 billion as of December 31, 2019. For information on our current capital requirements, see "Note 12, Regulatory Capital Requirements" in our 2019 Form 10-K. For information on our proposed capital requirements, see "Legislation and Regulation—Proposed Capital Framework" in this report.

Capital Activity

Under the terms governing the senior preferred stock, we will not owe dividends to Treasury until we have accumulated over $25 billion in net worth. Accordingly, no dividends were payable to Treasury for the second quarter of 2020 and none are payable for the third quarter of 2020. The aggregate liquidation preference of the senior preferred stock increases at the end of each quarter by the increase, if any, in our net worth during the immediately prior fiscal quarter, until the liquidation preference has increased by $22 billion pursuant to this provision. The aggregate liquidation preference of the senior preferred stock was $135.4 billion as of June 30, 2020, unchanged from March 31, 2020 as a result of the decrease in our net worth during the first quarter of 2020. The aggregate liquidation preference of the senior preferred stock will increase to $138.0 billion as of September 30, 2020 due to the $2.5 billion increase in our net worth during the second quarter of 2020. As of June 30, 2020, our net worth was $16.5 billion.

See "Business—Conservatorship, Treasury Agreements and Housing Finance Reform—Treasury Agreements" in our 2019 Form 10-K for more information on the terms of our senior preferred stock and our senior preferred stock purchase agreement with Treasury. See "Risk Factors—GSE and Conservatorship Risk" in our 2019 Form 10-K for a discussion of the risks associated with the limit on our capital reserves.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements result primarily from the following:

- our guaranty of mortgage loan securitization and resecuritization transactions, and other guaranty commitments, over which we do not have control;
- liquidity support transactions; and
- partnership interests.

Since we began issuing UMBS in June 2019, some of the securities we issue are structured securities backed, in whole or in part, by Freddie Mac securities. When we issue a structured security, we provide a guaranty that we will supplement amounts received from the underlying mortgage-related security as required to permit timely payment of principal and interest on the certificates related to the resecuritization trust. Accordingly, when we issue structured securities backed in whole or in part by Freddie Mac securities, we extend our guaranty to the underlying Freddie Mac security included in the structured security. Our issuance of structured securities backed in whole or in part by Freddie Mac securities creates additional off-balance sheet exposure as we do not have control over the Freddie Mac mortgage loan securitizations. Because we do not have the power to direct matters (primarily the servicing of mortgage loans) that impact the credit risk to which we are exposed, which constitute control of these securitization trusts, we do not consolidate these trusts in our condensed consolidated balance sheet, giving rise to off-balance sheet exposure.

The total amount of our off-balance sheet exposure related to unconsolidated Fannie Mae MBS net of any beneficial interest that we retain, and other financial guarantees was $118.8 billion as of June 30, 2020. Approximately $79.8 billion of this amount consisted of the unpaid principal balance of Freddie Mac-issued UMBS backing Fannie Mae-issued Supers. Additionally, off-balance sheet exposure includes approximately $21.6 billion of the unpaid principal balance of Freddie Mac securities backing Fannie Mae-issued REMICs; however, a portion of these Freddie Mac securities may be backed in whole or in part by Fannie Mae MBS. Therefore, our total exposure to Freddie Mac securities included in Fannie Mae REMIC collateral is likely lower. We expect our off-balance sheet exposure to Freddie Mac securities to increase as we issue more structured securities backed by Freddie Mac securities in the future. The total amount of our off-balance sheet exposure related to unconsolidated Fannie Mae MBS and other financial guarantees was $68.6 billion as of December 31, 2019. Approximately $37.8 billion of this amount consisted of the unpaid principal balance of Freddie Mac-issued UMBS backing Fannie Mae-issued Supers and $12.3 billion of this amount consisted of the unpaid principal balance of Freddie Mac securities backing Fannie Mae-issued REMICs. See “Note 6, Financial Guarantees” for more information regarding our maximum exposure to loss on unconsolidated Fannie Mae MBS and Freddie Mac securities.

We also have off-balance sheet exposure to losses from liquidity support transactions and partnership interests.

- Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $6.8 billion as of June 30, 2020 and $7.2 billion as of December 31, 2019. These commitments require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. We hold cash and cash equivalents in our other investments portfolio in excess of these commitments to advance funds.
- We make investments in various limited partnerships and similar legal entities, which consist of low-income housing tax credit investments, community investments and other entities. When we do not have a controlling financial interest in those entities, our condensed consolidated balance sheets reflect only our investment rather than the full amount of the partnership’s assets and liabilities. See “Note 2, Consolidations and Transfers of Financial Assets—Unconsolidated VIEs” for information regarding our limited partnerships and similar legal entities.

Risk Management

Our business activities expose us to the following major categories of risk: credit risk (including mortgage credit risk and institutional counterparty credit risk), market risk (including interest-rate risk), liquidity and funding risk, and operational risk (including cyber/information security risk, third-party risk and model risk), as well as strategic risk, compliance risk and reputational risk. See “MD&A—Risk Management” in our 2019 Form 10-K for a discussion of our management of these risks. This section supplements and updates that discussion but does not repeat all of the risk management categories described in our 2019 Form 10-K.

Institutional Counterparty Credit Risk Management

This section supplements and updates our discussion of institutional counterparty credit risk management in our 2019 Form 10-K. See “MD&A—Risk Management—Institutional Counterparty Credit Risk Management” and “Risk Factors—Credit Risk” in our 2019 Form 10-K for a discussion of our exposure to institutional counterparty credit risk and our strategy for managing this risk. As described in “Risk Factors” in this report, the COVID-19 pandemic has increased our counterparty credit risk. Also see “Note 10, Concentrations of Credit Risk” in this report for an update on our counterparty credit risk exposure.

Change in Non-Depository Seller and Servicer Liquidity Requirement as a Result of COVID-19 Forbearances

We have previously established minimum liquidity requirements for single-family non-depository servicers to maintain eligibility with Fannie Mae. With the expected increase in delinquent loans in forbearance plans as a result of the unprecedented circumstances of the COVID-19 pandemic and the CARES Act, we have temporarily modified our minimum liquidity requirement for single-family non-depository servicers to maintain eligibility with Fannie Mae. Beginning with the second quarter of 2020, when calculating the minimum liquidity requirement for seriously delinquent mortgage loans for non-depository servicers, an adjustment will be included for mortgage loans in a COVID-19-related forbearance plan that are 90 days or more delinquent and were current at the inception of the plan. The adjustment will provide partial relief to these servicers for the impacted loans.

Change in Private Mortgage Insurer Eligibility Requirements

Mortgage insurers must meet and maintain compliance with private mortgage insurer eligibility requirements ("PMIERs") to be eligible to write mortgage insurance on loans acquired by Fannie Mae. The PMIERs are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. At FHFA's direction, on June 30, 2020, we and Freddie Mac published revisions to the PMIERs, which became effective immediately. The revisions include (1) a temporary adjustment when calculating required risk-based assets for nonperforming mortgage loans that became newly delinquent after the onset of the COVID-19 crisis, and (2) through March 31, 2021, a requirement for private mortgage insurers to secure prior approval from Fannie Mae to enable payment of dividends or certain new transfers of cash. The adjustment will provide partial relief to mortgage insurers' capital requirements for the impacted loans.

Market Risk Management, Including Interest-Rate Risk Management

This section supplements and updates information regarding market risk management in our 2019 Form 10-K. See "MD&A—Risk Management—Market Risk Management, Including Interest-Rate Risk Management" and "Risk Factors" in our 2019 Form 10-K for additional information, including our sources of interest-rate risk exposure, business risks posed by changes in interest rates, and our strategy for managing interest-rate risk. As described in "Risk Factors" in this report, the COVID-19 pandemic has increased our market risk.

Measurement of Interest-Rate Risk

The table below displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. The table below also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended June 30, 2020 and 2019. Our practice is to allow interest rates to go below zero in the downward shock models unless otherwise prevented through contractual floors.

For information on how we measure our interest-rate risk, see our 2019 Form 10-K in "MD&A—Risk Management—Market Risk Management, Including Interest-Rate Risk Management."

Interest-Rate Sensitivity of Net Portfolio to Changes in Interest-Rate Level and Slope of Yield Curve

	As of (1)(2)	
	June 30, 2020	December 31, 2019
	(Dollars in millions)	
Rate level shock:		
-100 basis points	**$ (68)**	$ 57
-50 basis points	**(42)**	11
+50 basis points	**54**	51
+100 basis points	**142**	160
Rate slope shock:		
-25 basis points (flattening)	**(24)**	(20)
+25 basis points (steepening)	**21**	22

	For the Three Months Ended June 30, (1)(3)					
	2020			2019		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Market Value Sensitivity			Market Value Sensitivity	
	(In years)	(Dollars in millions)		(In years)	(Dollars in millions)	
Average	**(0.01)**	**$ (23)**	**$ (47)**	0.01	$ (14)	$ (18)
Minimum	**(0.09)**	**(35)**	**(136)**	(0.03)	(24)	(73)
Maximum	**0.05**	**(12)**	**—**	0.07	(3)	10
Standard deviation	**0.03**	**6**	**27**	0.02	6	17

(1) Computed based on changes in U.S. LIBOR interest-rates swap curve. Changes in the level of interest-rates assume a parallel shift in all maturities of the U.S. LIBOR interest-rate swap curve. Changes in the slope of the yield curve assume a constant 7-year rate, a shift of

16.7 basis points for the 1-year rate (and shorter tenors) and an opposite shift of 8.3 basis points for the 30-year rate. Rate shocks for remaining maturity points are interpolated.

(2) Measured on the last business day of each period presented.

(3) Computed based on daily values during the period presented.

The market value sensitivity of our net portfolio varies across a range of interest-rate shocks depending upon the duration and convexity profile of our net portfolio.

We use derivatives to help manage the residual interest-rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. The table below displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest-rate shock.

Derivative Impact on Interest-Rate Risk (50 Basis Points)

	As of [1]	
	June 30, 2020	**December 31, 2019**
	(Dollars in millions)	
Before derivatives	**$ (278)**	$ (197)
After derivatives	**(42)**	51
Effect of derivatives	**236**	248

(1) Measured on the last business day of each period presented.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies" in this report and in our 2019 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. We have identified one of our accounting policies, allowance for loan losses, as critical because it involves significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition.

Allowance for Loan Losses and Adoption of the CECL Standard

The CECL standard is effective for our fiscal year beginning January 1, 2020 and impacts the measurement of our allowance for loan losses. The CECL standard reflects lifetime expected credit losses on the loans in our book of business and requires consideration of a range of reasonable and supportable forecast information to develop that estimate. We have changed our accounting policies and implemented system, model and process changes to adopt the standard.

Our allowance for loan losses is a valuation account that is deducted from the amortized cost basis of HFI loans to present the net amount expected to be collected on the loans. The allowance for loan losses reflects an estimate of expected credit losses on single-family and multifamily HFI loans held by Fannie Mae and by consolidated Fannie Mae MBS trusts. Upon adoption, we used a discounted cash flow method to measure expected credit losses on our single-family mortgage loans and an undiscounted loss method to measure expected credit losses on our multifamily mortgage loans. The models used reasonable and supportable forecasts for key economic drivers, such as home prices (single-family), rental income (multifamily) and capitalization rates (multifamily). Our modeled loan performance is based on our historical experience of loans with similar risk characteristics adjusted to reflect current conditions and reasonable and supportable forecasts. Our historical loss experience and our credit loss estimates capture the possibility of remote events that could result in credit losses on loans that are considered low risk. Our credit loss models, including the forecast data used as key inputs, are subject to our model oversight and review processes as well as other established governance and controls.

Changes to our estimate of expected credit losses, including changes due to the passage of time, are recorded through the benefit (provision) for credit losses. When calculating our allowance for loan losses, we consider only our amortized cost in the loans at the balance sheet date. We record write-offs as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in satisfaction of a loan, such as the underlying collateral upon foreclosure or cash upon completion of a short sale. Additionally, we record write-offs as a reduction to our allowance for loan losses when a loan is determined to be uncollectible and upon the redesignation of a seriously delinquent loan from HFI to HFS. We include expected recoveries of amounts previously written off and expected to be written off in determining our allowance for loan losses.

Our process for determining the impact of the adoption as well as the measurement of expected credit losses for the period under the new standard is complex and involves significant management judgment, including a reliance on historical loss information and current economic forecasts that may not be representative of credit losses we ultimately realize. For example, uncertainty regarding the expected impacts of the COVID-19 pandemic required significant management judgment in assessing our allowance for loan losses as of June 30, 2020.

We provide more detailed information on our accounting for the allowance for loan losses and impact of adopting the CECL standard in "Note 1, Summary of Significant Accounting Policies." See "Risk Factors" in our 2019 Form 10-K and in this report for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods.

Impact of Future Adoption of New Accounting Guidance

We identify and discuss the expected impact on our condensed consolidated financial statements of recently issued accounting guidance in "Note 1, Summary of Significant Accounting Policies."

Forward-Looking Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). In addition, we and our senior management may from time to time make forward-looking statements in our other filings with the SEC, our other publicly available written statements, and orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could," "likely," "may," "will" or similar words. Examples of forward-looking statements in this report include, among others, statements relating to our expectations regarding the following matters:

- our future financial performance, financial condition and net worth, and the factors that will affect them;
- the impact of the COVID-19 pandemic on our business, financial results, financial condition, business plans and strategies, and on mortgage market and economic conditions, and the factors that will affect the pandemic's impact;
- expectations for, and the impact of fluctuations in our acquisition volumes, market share, guaranty fees, or acquisition credit characteristics;
- our business plans and strategies and the impact of such plans and strategies;
- our plans regarding and work toward exiting conservatorship;
- the impact of FHFA's re-proposed capital framework on our business and results;
- our dividend payments to Treasury and the liquidation preference of the senior preferred stock;
- volatility in our future financial results and efforts we may make to address volatility, including our expectations relating to our implementation of a hedge accounting program and its impact on the volatility of our financial results;
- the size and composition of our retained mortgage portfolio;
- the amount and timing of our purchases of loans from MBS trusts;
- the volume of whole loan conduit activity;
- the impact of legislation and regulation on our business or financial results;
- our payments to HUD and Treasury funds under the GSE Act;
- our plans relating to future credit risk transfer transactions and risk-sharing arrangements with lenders, and the effects of our credit risk transfer transactions and credit risk-sharing arrangements;
- factors that could affect or mitigate our credit risk exposure;
- mortgage market and economic conditions (including U.S. GDP, unemployment rates, interest rates, home price growth, multifamily property valuation growth, housing activity, housing starts, home sales, rent growth, multifamily vacancy rates, and the future volume of and characteristics of mortgage originations) and the impact of mortgage market and economic conditions on our business and financial results;
- our future off-balance sheet exposure to Freddie Mac securities;
- the risks to our business;

- future delinquency rates, default rates, forbearances and other loss mitigation activity, substandard loan amounts and credit losses relating to the loans in our guaranty book of business and the factors that will affect them, including the impact of the COVID-19 pandemic and our expectations regarding the future behavior of borrowers;
- our expectations relating to our TDRs;
- the performance of loans in our book of business and the factors that will affect such performance;
- our loan acquisitions, the credit risk profile of such acquisitions, and the factors that will affect them;
- our future liquidity, liquidity planning, debt funding needs and factors that will affect our ability to meet our debt obligations; and
- our response to legal and regulatory proceedings and their impact on our business or financial condition.

Forward-looking statements reflect our management's current expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active and that otherwise impact our business plans. Forward-looking statements are not guarantees of future performance. By their nature, forward-looking statements are subject to significant risks and uncertainties and changes in circumstances. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements.

There are a number of factors that could cause actual conditions, events or results to differ materially from those described in our forward-looking statements, including, among others, the following:

- the uncertainty of our future and our exit from conservatorship;
- uncertainty surrounding the duration, spread and severity of the COVID-19 pandemic; the actions taken to contain the virus or treat its impact, including government actions to mitigate the economic impact of the pandemic; the extent to which consumers, workers and families feel safe resuming business activities and school; the nature, extent and success of the forbearance and modification options borrowers affected by the pandemic obtain from us; accounting elections and estimates relating to the impact of the COVID-19 pandemic; borrower and renter behavior in response to the pandemic and its economic impact; how quickly and to what extent normal economic and operating conditions can resume, including whether any future pandemics interrupt economic recovery; and how quickly and to what extent affected borrowers, renters and counterparties can recover from the negative economic impact of the pandemic;
- the market and regulatory changes we anticipate and our readiness for them, including changes relating to an eventual exit from conservatorship, the competitive landscape, and the need to attract private investment;
- future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation (including all or any portion of the Treasury plan), including changes that limit our business activities or our footprint;
- actions by FHFA, Treasury, HUD, the Consumer Financial Protection Bureau or other regulators, Congress, or state or local governments that affect our business, including new capital requirements that become applicable to us or changes in the ability-to-repay rule to replace the qualified mortgage patch for government-sponsored enterprise-eligible loans;
- changes in the structure and regulation of the financial services industry;
- the timing and level of, as well as regional variation in, home price changes;
- future interest rates and credit spreads;
- developments that may be difficult to predict, including: market conditions that result in changes in our net amortization income from our guaranty book of business, fluctuations in the estimated fair value of our derivatives and other financial instruments that we mark to market through our earnings; and developments that affect our loss reserves, such as changes in interest rates, home prices or accounting standards, or events such as natural disasters or the emergence of widespread health emergencies or pandemics;
- uncertainties relating to the discontinuance of LIBOR, or other market changes that could impact the loans we own or guarantee or our MBS;
- credit availability;
- disruptions or instability in the housing and credit markets;
- the size and our share of the U.S. mortgage market and the factors that affect them, including population growth and household formation;
- growth, deterioration and the overall health and stability of the U.S. economy, including U.S. GDP, unemployment rates, personal income and other indicators thereof;
- changes in the fiscal and monetary policies of the Federal Reserve;

- our and our competitors' future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues;
- the volume of mortgage originations;
- the size, composition, quality and performance of our guaranty book of business and retained mortgage portfolio;
- the competitive environment in which we operate, including the impact of legislative, regulatory or other developments on levels of competition in our industry and other factors affecting our market share;
- how long loans in our guaranty book of business remain outstanding;
- challenges we face in retaining and hiring qualified executives and other employees;
- the effectiveness of our business resiliency plans and systems;
- changes in the demand for Fannie Mae MBS, in general or from one or more major groups of investors;
- our conservatorship, including any changes to or termination (by receivership or otherwise) of the conservatorship and its effect on our business;
- the investment by Treasury, including potential changes to the terms of the senior preferred stock purchase agreement or senior preferred stock, and its effect on our business, including restrictions imposed on us by the terms of the senior preferred stock purchase agreement, the senior preferred stock, and Treasury's warrant, as well as the possibility that these or other restrictions on our business and activities may be applied to us through other mechanisms even if we cease to be subject to these agreements and instruments;
- adverse effects from activities we undertake to support the mortgage market and help borrowers, renters, lenders and servicers;
- actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as actions in response to the COVID-19 pandemic, changes in the type of business we do, or actions relating to UMBS or our resecuritization of Freddie Mac-issued securities;
- limitations on our business imposed by FHFA, in its role as our conservator or as our regulator;
- our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers;
- the possibility that future changes in leadership at FHFA or the Administration may result in changes in FHFA's or Treasury's willingness to pursue the administrative reform recommendations in the Treasury plan;
- our reliance on Common Securitization Solutions, LLC ("CSS") and the common securitization platform for a majority of our single-family securitization activities, our reduced influence over CSS as a result of recent changes to the CSS limited liability company agreement, and any additional changes FHFA may require in our relationship with or in our support of CSS;
- a decrease in our credit ratings;
- limitations on our ability to access the debt capital markets;
- constraints on our entry into new credit risk transfer transactions;
- significant changes in forbearance, modification and foreclosure activity;
- the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates;
- changes in borrower behavior;
- actions we may take to mitigate losses, and the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies;
- defaults by one or more institutional counterparties;
- resolution or settlement agreements we may enter into with our counterparties;
- our need to rely on third parties to fully achieve some of our corporate objectives;
- our reliance on mortgage servicers;
- changes in GAAP, guidance by the Financial Accounting Standards Board and changes to our accounting policies;
- changes in the fair value of our assets and liabilities;
- the stability and adequacy of the systems and infrastructure that impact our operations, including ours and those of CSS, our other counterparties and other third parties;
- the impact of increasing interdependence between the single-family mortgage securitization programs of Fannie Mae and Freddie Mac in connection with UMBS;
- operational control weaknesses;
- our reliance on models and future updates we make to our models, including the assumptions used by these models;

- domestic and global political risks and uncertainties;
- natural disasters, environmental disasters, terrorist attacks, widespread health emergencies or pandemics, or other major disruptive events;
- cyber attacks or other information security breaches or threats; and
- the other factors described in “Risk Factors” in this report and in our 2019 Form 10-K.

Readers are cautioned not to unduly rely on the forward-looking statements we make and to place these forward-looking statements into proper context by carefully considering the factors discussed in “Risk Factors” in our 2019 Form 10-K and in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1. Financial Statements

FANNIE MAE

(In conservatorship)

Condensed Consolidated Balance Sheets — (Unaudited)

(Dollars in millions)

	As of	
	June 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	**$ 54,510**	$ 21,184
Restricted cash (includes $58,581 and $33,294, respectively, related to consolidated trusts)	**65,714**	40,223
Federal funds sold and securities purchased under agreements to resell or similar arrangements	**25,450**	13,578
Investments in securities:		
Trading, at fair value (includes $5,727 and $3,037, respectively, pledged as collateral)	**106,744**	48,123
Available-for-sale, at fair value (with an amortized cost of $1,990, net of allowance for credit losses of $3 as of June 30, 2020)	**2,120**	2,404
Total investments in securities	**108,864**	50,527
Mortgage loans:		
Loans held for sale, at lower of cost or fair value	**7,580**	6,773
Loans held for investment, at amortized cost:		
Of Fannie Mae	**107,771**	94,911
Of consolidated trusts	**3,356,950**	3,241,494
Total loans held for investment (includes $7,303 and $7,825, respectively, at fair value)	**3,464,721**	3,336,405
Allowance for loan losses	**(12,966)**	(9,016)
Total loans held for investment, net of allowance	**3,451,755**	3,327,389
Total mortgage loans	**3,459,335**	3,334,162
Advances to lenders	**7,983**	6,453
Deferred tax assets, net	**13,119**	11,910
Accrued interest receivable, net (includes $9,451 and $8,172, respectively, related to consolidated trusts and net of an allowance of $172 as of June 30, 2020)	**9,679**	8,604
Acquired property, net	**1,844**	2,366
Other assets	**14,178**	14,312
Total assets	**$3,760,676**	$ 3,503,319
LIABILITIES AND EQUITY		
Liabilities:		
Accrued interest payable (includes $9,312 and $9,361, respectively, related to consolidated trusts)	**$ 10,054**	$ 10,228
Debt:		
Of Fannie Mae (includes $4,546 and $5,687, respectively, at fair value)	**275,637**	182,247
Of consolidated trusts (includes $23,883 and $21,880, respectively, at fair value)	**3,444,338**	3,285,139
Other liabilities (includes $1,638 and $376, respectively, related to consolidated trusts)	**14,170**	11,097
Total liabilities	**3,744,199**	3,488,711
Commitments and contingencies (Note 13)	**—**	—
Fannie Mae stockholders' equity:		
Senior preferred stock (liquidation preference of $135,444 and $131,178, respectively)	**120,836**	120,836
Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding	**19,130**	19,130
Common stock, no par value, no maximum authorization—1,308,762,703 shares issued and 1,158,087,567 shares outstanding	**687**	687
Accumulated deficit	**(116,909)**	(118,776)
Accumulated other comprehensive income	**133**	131
Treasury stock, at cost, 150,675,136 shares	**(7,400)**	(7,400)
Total stockholders' equity (See Note 1: Senior Preferred Stock Purchase Agreement and Senior Preferred Stock for information on the related dividend obligation and liquidation preference)	**16,477**	14,608
Total liabilities and equity	**$3,760,676**	$ 3,503,319

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Operations and Comprehensive Income — (Unaudited)

(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	**2020**	2019
Interest income:				
Trading securities	**$ 219**	$ 432	**$ 535**	$ 859
Available-for-sale securities	**26**	45	**57**	98
Mortgage loans	**27,007**	29,511	**55,945**	59,373
Federal funds sold and securities purchased under agreements to resell or similar arrangements	**14**	257	**121**	520
Other	**25**	41	**59**	73
Total interest income	**27,291**	30,286	**56,717**	60,923
Interest expense:				
Short-term debt	**(54)**	(119)	**(156)**	(244)
Long-term debt	**(21,460)**	(24,940)	**(45,437)**	(50,656)
Total interest expense	**(21,514)**	(25,059)	**(45,593)**	(50,900)
Net interest income	**5,777**	5,227	**11,124**	10,023
Benefit (provision) for credit losses	**(12)**	1,225	**(2,595)**	1,875
Net interest income after benefit (provision) for credit losses	**5,765**	6,452	**8,529**	11,898
Investment gains (losses), net	**149**	461	**(9)**	594
Fair value losses, net	**(1,018)**	(754)	**(1,294)**	(1,585)
Fee and other income	**90**	113	**210**	247
Non-interest loss	**(779)**	(180)	**(1,093)**	(744)
Administrative expenses:				
Salaries and employee benefits	**(382)**	(376)	**(775)**	(762)
Professional services	**(231)**	(233)	**(443)**	(458)
Other administrative expenses	**(141)**	(135)	**(285)**	(268)
Total administrative expenses	**(754)**	(744)	**(1,503)**	(1,488)
Foreclosed property expense	**(10)**	(128)	**(90)**	(268)
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	**(660)**	(600)	**(1,297)**	(1,193)
Credit enhancement expense	**(360)**	(276)	**(736)**	(492)
Change in expected credit enhancement recoveries	**273**	—	**461**	—
Other expenses, net	**(261)**	(203)	**(479)**	(365)
Total expenses	**(1,772)**	(1,951)	**(3,644)**	(3,806)
Income before federal income taxes	**3,214**	4,321	**3,792**	7,348
Provision for federal income taxes	**(669)**	(889)	**(786)**	(1,516)
Net income	**2,545**	3,432	**3,006**	5,832
Other comprehensive income (loss):				
Changes in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustments and taxes	**(11)**	(65)	**7**	(101)
Other, net of taxes	**(2)**	(2)	**(5)**	(5)
Total other comprehensive income (loss)	**(13)**	(67)	**2**	(106)
Total comprehensive income	**$ 2,532**	$ 3,365	**$ 3,008**	$ 5,726
Net income	**$ 2,545**	$ 3,432	**$ 3,006**	$ 5,832
Dividends distributed or amounts attributable to senior preferred stock	**(2,532)**	(3,365)	**(3,008)**	(5,726)
Net income (loss) attributable to common stockholders	**$ 13**	$ 67	**$ (2)**	$ 106
Earnings per share:				
Basic	**$ 0.00**	$ 0.01	**$ 0.00**	$ 0.02
Diluted	**0.00**	0.01	**0.00**	0.02
Weighted-average common shares outstanding:				
Basic	**5,867**	5,762	**5,867**	5,762
Diluted	**5,893**	5,893	**5,867**	5,893

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Cash Flows — (Unaudited)

(Dollars in millions)

	For the Six Months Ended June 30,	
	2020	**2019**
Net cash provided by (used in) operating activities	**$ (39,322)**	$ 2,180
Cash flows provided by (used in) investing activities:		
Proceeds from maturities and paydowns of trading securities held for investment	**23**	28
Proceeds from sales of trading securities held for investment	**—**	49
Proceeds from maturities and paydowns of available-for-sale securities	**189**	268
Proceeds from sales of available-for-sale securities	**121**	376
Purchases of loans held for investment	**(293,666)**	(90,612)
Proceeds from repayments of loans acquired as held for investment of Fannie Mae	**4,634**	5,557
Proceeds from sales of loans acquired as held for investment of Fannie Mae	**427**	5,821
Proceeds from repayments and sales of loans acquired as held for investment of consolidated trusts	**448,375**	211,956
Advances to lenders	**(123,805)**	(54,440)
Proceeds from disposition of acquired property and preforeclosure sales	**3,239**	3,870
Net change in federal funds sold and securities purchased under agreements to resell or similar arrangements	**(11,872)**	13,376
Other, net	**(937)**	(743)
Net cash provided by investing activities	**26,728**	95,506
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of debt of Fannie Mae	**393,641**	374,284
Payments to redeem debt of Fannie Mae	**(299,933)**	(389,779)
Proceeds from issuance of debt of consolidated trusts	**401,749**	158,970
Payments to redeem debt of consolidated trusts	**(423,582)**	(224,145)
Payments of cash dividends on senior preferred stock to Treasury	**—**	(5,601)
Other, net	**(464)**	132
Net cash provided by (used in) financing activities	**71,411**	(86,139)
Net increase in cash, cash equivalents and restricted cash	**58,817**	11,547
Cash, cash equivalents and restricted cash at beginning of period	**61,407**	49,423
Cash, cash equivalents and restricted cash at end of period	**$120,224**	$ 60,970
Cash paid during the period for:		
Interest	**$ 57,733**	$ 57,637
Income taxes	**—**	700

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Condensed Consolidated Statements of Changes in Equity (Deficit) — (Unaudited)
(Dollars and shares in millions)

	Fannie Mae Stockholders' Equity (Deficit)									
	Shares Outstanding									
	Senior Preferred	Preferred	Common	Senior Preferred Stock	Preferred Stock	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity
Balance as of March 31, 2020	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (119,454)	$ 146	$ (7,400)	$ 13,945
Senior preferred stock dividends paid	—	—	—	—	—	—	—	—	—	—
Comprehensive income:										
Net income	—	—	—	—	—	—	2,545	—	—	2,545
Other comprehensive income, net of tax effect:										
Changes in net unrealized gains on available-for-sale securities (net of taxes of $3)	—	—	—	—	—	—	—	(11)	—	(11)
Reclassification adjustment for gains included in net income (net of taxes of $0)	—	—	—	—	—	—	—	—	—	—
Other (net of taxes of $0)	—	—	—	—	—	—	—	(2)	—	(2)
Total comprehensive income										2,532
Balance as of June 30, 2020	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (116,909)	$ 133	$ (7,400)	$ 16,477

	Fannie Mae Stockholders' Equity (Deficit)									
	Shares Outstanding									
	Senior Preferred	Preferred	Common	Senior Preferred Stock	Preferred Stock	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity
Balance as of December 31, 2019	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (118,776)	$ 131	$ (7,400)	$ 14,608
Transition impact, net of tax, from the adoption of the current expected credit loss standard	—	—	—	—	—	—	(1,139)	—	—	(1,139)
Balance as of January 1, 2020, adjusted	1	556	1,158	120,836	19,130	687	(119,915)	131	(7,400)	13,469
Senior preferred stock dividends paid	—	—	—	—	—	—	—	—	—	—
Comprehensive income:										
Net income	—	—	—	—	—	—	3,006	—	—	3,006
Other comprehensive income, net of tax effect:										
Changes in net unrealized gains on available-for-sale securities (net of taxes of $1)	—	—	—	—	—	—	—	4	—	4
Reclassification adjustment for gains included in net income (net of taxes of $1)	—	—	—	—	—	—	—	3	—	3
Other (net of taxes of $1)	—	—	—	—	—	—	—	(5)	—	(5)
Total comprehensive income										3,008
Balance as of June 30, 2020	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (116,909)	$ 133	$ (7,400)	$ 16,477

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Changes in Equity (Deficit) — (Unaudited)

(Dollars and shares in millions)

	Fannie Mae Stockholders' Equity (Deficit)									
	Shares Outstanding									
	Senior Preferred	Preferred	Common	Senior Preferred Stock	Preferred Stock	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity
Balance as of March 31, 2019	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (128,175)	$ 283	$ (7,400)	$ 5,361
Senior preferred stock dividends paid	—	—	—	—	—	—	(2,361)	—	—	(2,361)
Comprehensive income:										
Net income	—	—	—	—	—	—	3,432	—	—	3,432
Other comprehensive income, net of tax effect:										
Changes in net unrealized gains on available-for-sale securities (net of taxes of $3)	—	—	—	—	—	—	—	9	—	9
Reclassification adjustment for gains included in net income (net of taxes of $19)	—	—	—	—	—	—	—	(74)	—	(74)
Other (net of taxes of $0)	—	—	—	—	—	—	—	(2)	—	(2)
Total comprehensive income										3,365
Balance as of June 30, 2019	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (127,104)	$ 216	$ (7,400)	$ 6,365

	Fannie Mae Stockholders' Equity (Deficit)									
	Shares Outstanding									
	Senior Preferred	Preferred	Common	Senior Preferred Stock	Preferred Stock	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity
Balance as of December 31, 2018	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (127,335)	$ 322	$ (7,400)	$ 6,240
Senior preferred stock dividends paid	—	—	—	—	—	—	(5,601)	—	—	(5,601)
Comprehensive income:										
Net income	—	—	—	—	—	—	5,832	—	—	5,832
Other comprehensive income, net of tax effect:										
Changes in net unrealized gains on available-for-sale securities (net of taxes of $5)	—	—	—	—	—	—	—	17	—	17
Reclassification adjustment for gains included in net income (net of taxes of $31)	—	—	—	—	—	—	—	(118)	—	(118)
Other (net of taxes of $1)	—	—	—	—	—	—	—	(5)	—	(5)
Total comprehensive income										5,726
Balance as of June 30, 2019	1	556	1,158	$ 120,836	$ 19,130	$ 687	$ (127,104)	$ 216	$ (7,400)	$ 6,365

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

We are a stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (the "Charter Act" or our "charter"). We are a government-sponsored enterprise ("GSE"), and we are subject to government oversight and regulation. Our regulators include the Federal Housing Finance Agency ("FHFA"), the U.S. Department of Housing and Urban Development ("HUD"), the U.S. Securities and Exchange Commission ("SEC"), and the U.S. Department of the Treasury ("Treasury"). The U.S. government does not guarantee our securities or other obligations.

We have been under conservatorship, with FHFA acting as conservator, since September 6, 2008. See below and "Note 1, Summary of Significant Accounting Policies" in our annual report on Form 10-K for the year ended December 31, 2019 ("2019 Form 10-K") for additional information on our conservatorship and the impact of U.S. government support of our business.

The unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2020 and related notes, should be read in conjunction with our audited consolidated financial statements and related notes included in our 2019 Form 10-K.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The accompanying condensed consolidated financial statements include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany accounts and transactions have been eliminated. To conform to our current period presentation, we have reclassified certain amounts reported in our prior period condensed consolidated financial statements. Results for the three and six months ended June 30, 2020 may not necessarily be indicative of the results for the year ending December 31, 2020.

Presentation of Advances to Lenders

Advances to lenders represent our payments of cash in exchange for the receipt of mortgage loans from lenders in a transfer that is accounted for as a secured lending arrangement. These transfers primarily occur when we provide early funding to lenders for loans that they will subsequently either sell to us or securitize into a Fannie Mae MBS that they will deliver to us. Early lender funding advances have terms up to 60 days and earn a short-term market rate of interest. Advances to lenders has been presented as a separate line item for all periods presented as increased mortgage refinance activity resulted in a higher balance at period end. In prior periods, advances to lenders were recorded in "Other assets."

Presentation of Freestanding Credit Enhancement Expense and Recoveries

Freestanding credit enhancements primarily include our Connecticut Avenue Securities® ("CAS") and Credit Insurance Risk Transfer™ ("CIRT™") programs, enterprise-paid mortgage insurance ("EPMI"), and certain lender risk-sharing arrangements, including our multifamily Delegated Underwriting and Servicing ("DUS®") program. We have revised our presentation of the expenses and recoveries associated with these programs as described below.

Credit Enhancement Expense

Credit enhancement expense consists of costs associated with our freestanding credit enhancements. We exclude from this expense costs related to our CAS transactions accounted for as debt instruments and credit risk transfer programs accounted for as derivative instruments. Credit enhancement expense has been presented as a separate line item for all periods presented as these expenses have become a more significant driver of our results of operations. In prior periods, credit enhancement expenses were recorded in "Other expenses, net."

Change in Expected Credit Enhancement Recoveries

Change in expected credit enhancement recoveries consists of the change in benefits recognized from our freestanding credit enhancements, including any realized amounts. Benefits, if any, from our CAS, CIRT and EPMI programs previously recorded in "Fee and other income" have been reclassified to "Change in expected credit enhancement recoveries" for all periods presented. Benefits from other lender risk-sharing programs, including our multifamily DUS program, were recorded as a reduction of credit-related expense in periods prior to 2020. However, with our adoption of the CECL standard on January 1, 2020, benefits from freestanding credit enhancements are no longer recorded as a reduction of credit-related expenses. These benefits from lender risk-sharing have been reclassified into “Change in expected credit enhancement recoveries” on a prospective basis beginning January 1, 2020.

Presentation of Yield Maintenance Fees

Prior period multifamily yield maintenance fees have been reclassified to conform to the current period presentation. Multifamily yield maintenance fees, or prepayment premiums, are fees that a borrower pays when they prepay their loan. For multifamily loans held in a consolidated trust, a portion of the yield maintenance fee is typically passed through to the holders of the trust certificate. As of January 1, 2020, we classify all yield maintenance fees as interest income. For consolidated loans, the portion of the fee passed through to the certificate holders of the trust is classified as interest expense. Previously, we classified multifamily yield maintenance fees as interest income only when the fee was associated with a loan refinancing, otherwise the fee was classified as fee and other income. The portion of the fees passed through to the certificate holders of the trust were previously classified as interest expense only when the fee was associated with a loan refinancing, otherwise the fee was classified as other expense. The changes in presentation have been applied retrospectively to all periods presented and were immaterial for prior periods.

Use of Estimates

Preparing condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of our condensed consolidated financial statements, as well as our reported amounts of revenues and expenses during the reporting periods. Management has made significant estimates in a variety of areas including, but not limited to, the allowance for loan losses. For example, significant uncertainty regarding the expected impacts of the COVID-19 pandemic required substantial management judgment in assessing our allowance for loan losses as of June 30, 2020. Actual results could differ from these estimates.

Conservatorship

On September 7, 2008, the Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae, which included: (1) placing us in conservatorship and (2) the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, including by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”), the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently issued an order that provided for our Board of Directors to exercise specified authorities. The conservator also provided instructions regarding matters for which conservator decision or notification is required. The conservator retains the authority to amend or withdraw its order and instructions at any time.

The conservator has the power to transfer or sell any asset or liability of Fannie Mae (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts) without any approval, assignment of rights or consent of any party. However, mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of Fannie Mae. Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

On September 5, 2019, Treasury released a plan to reform the housing finance system. The Treasury Housing Reform Plan (the “Treasury plan”) is far-reaching in scope and could have a significant impact on our structure, our role in the secondary mortgage market, our capitalization, our business and our competitive environment. The Treasury plan includes recommendations relating to ending our conservatorship, amending our senior preferred stock purchase agreement with Treasury, considering additional restrictions and requirements on our business, and many other matters. The Treasury plan recommends that Treasury’s commitment to provide funding under the senior preferred stock purchase agreement should be replaced with legislation that authorizes an explicit, paid-for guarantee backed by the full faith and credit of the Federal Government that is limited to the timely payment of principal and interest on qualifying MBS. The Treasury plan further recommends that, pending legislation, even after conservatorship Treasury should maintain its ongoing commitment to support our single-family and multifamily mortgage-backed securities through the senior preferred stock purchase agreement, as amended as contemplated by the plan.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding our future, including how long we will continue to exist in our current form, the extent of our role in the market, the level of government support of our business, how long we will be in conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us into receivership at his discretion at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. Treasury has made a commitment under the senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. We are not aware of any plans of FHFA (1) to fundamentally change our business model, other than changes that might result from recommendations in the Treasury plan, if implemented, or (2) to reduce the aggregate amount available to or held by the company under our capital structure, which includes the senior preferred stock purchase agreement.

As described above, the Treasury plan contemplates FHFA ending the conservatorships of each of Fannie Mae and Freddie Mac (the “GSEs”) when the GSE has met specified preconditions. During the second quarter of 2020, FHFA and we took key steps in connection with these preconditions through FHFA’s proposal of a new regulatory capital framework for the GSEs and our hiring a financial advisor to assist us in planning the company’s recapitalization and exit from conservatorship.

Senior Preferred Stock Purchase Agreement and Senior Preferred Stock

Treasury has made a commitment under the senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. Pursuant to the senior preferred stock purchase agreement, we have received a total of $119.8 billion from Treasury as of June 30, 2020, and the amount of remaining funding available to us under the agreement was $113.9 billion.

Pursuant to the senior preferred stock purchase agreement, we issued shares of senior preferred stock in 2008. The current dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a $25 billion capital reserve amount. We refer to this as a “net worth sweep” dividend. Because we had a net worth of $13.9 billion as of March 31, 2020, no dividends were payable for the second quarter of 2020. And because we had a net worth of $16.5 billion as of June 30, 2020, no dividends are payable for the third quarter of 2020.

The aggregate liquidation preference of the senior preferred stock was $135.4 billion as of June 30, 2020, unchanged from March 31, 2020 as a result of the decrease in our net worth during the first quarter of 2020. The aggregate liquidation preference of the senior preferred stock will increase to $138.0 billion as of September 30, 2020 due to the $2.5 billion increase in our net worth during the second quarter of 2020.

See “Note 11, Equity” in our 2019 Form 10-K for additional information about the senior preferred stock purchase agreement and the senior preferred stock.

Regulatory Capital

We submit capital reports to FHFA, which monitors our capital levels. The deficit of core capital over statutory minimum capital was $131.2 billion as of June 30, 2020 and $128.8 billion as of December 31, 2019.

Related Parties

Because Treasury holds a warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, we and Treasury are deemed related parties. As of June 30, 2020, Treasury held an investment in our senior preferred stock with an aggregate liquidation preference of $135.4 billion. See “Senior Preferred Stock Purchase Agreement and Senior Preferred Stock” above for additional information on transactions under this agreement.

FHFA’s control of both Fannie Mae and Freddie Mac has caused Fannie Mae, FHFA and Freddie Mac to be deemed related parties. Additionally, Fannie Mae and Freddie Mac jointly own Common Securitization Solutions, LLC (“CSS”), a limited liability company created to operate a common securitization platform; as such, CSS is deemed a related party. As a part of our joint ownership, Fannie Mae, Freddie Mac and CSS are parties to a limited liability company agreement that sets forth the overall framework for the joint venture, including Fannie Mae’s and Freddie Mac’s rights and responsibilities as members of CSS. Fannie Mae, Freddie Mac and CSS are also parties to a customer services agreement that sets forth the terms under which CSS provides mortgage securitization services to us and Freddie Mac, including the operation of the common securitization platform as well as an administrative services agreement. CSS operates as a separate company from us and Freddie Mac, with all funding and limited administrative support services and other resources provided to it by us and Freddie Mac through our capital contributions.

In the ordinary course of business, Fannie Mae may purchase and sell securities issued by Treasury and Freddie Mac. These transactions occur on the same terms as those prevailing at the time for comparable transactions with unrelated parties. With our implementation of the Single Security Initiative in June 2019, some of the structured securities we issue are backed in whole or in part by Freddie Mac securities. Additionally, we make regular income tax payments to and receive tax refunds from the Internal Revenue Service ("IRS"), a bureau of Treasury.

Transactions with Treasury

Our administrative expenses were reduced by $4 million and $5 million for the three months ended June 30, 2020 and 2019, respectively, and $9 million and $10 million for the six months ended June 30, 2020 and 2019, due to reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for Treasury's Home Affordable Modification Program and other initiatives under Treasury's Making Home Affordable Program.

In December 2011, Congress enacted the Temporary Payroll Cut Continuation Act of 2011 ("TCCA") which, among other provisions, required that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury. Effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points. The resulting fee revenue and expense are recorded in "Mortgage loans interest income" and "TCCA fees," respectively, in our condensed consolidated statements of operations and comprehensive income. We recognized $660 million and $600 million in TCCA fees during the three months ended June 30, 2020 and 2019, respectively, and $1.3 billion and $1.2 billion for the six months ended June 30, 2020 and 2019, respectively, of which $660 million had not been remitted to Treasury as of June 30, 2020.

The GSE Act requires us to set aside certain funding obligations, a portion of which is attributable to Treasury's Capital Magnet Fund. These funding obligations, recognized in "Other expenses, net" in our condensed consolidated statements of operations and comprehensive income, are measured as the product of 4.2 basis points and the unpaid principal balance of our total new business purchases for the respective period, and 35% of this amount is payable to Treasury's Capital Magnet Fund. We recognized a total of $55 million and $21 million in "Other expenses, net" for the three months ended June 30, 2020 and 2019, respectively, and $85 million and $36 million for the six months ended June 30, 2020 and 2019, respectively, in connection with Treasury's Capital Magnet Fund, of which $85 million has not been remitted as of June 30, 2020.

Transactions with FHFA

The GSE Act authorizes FHFA to establish an annual assessment for regulated entities, including Fannie Mae, which is payable on a semi-annual basis (April and October), for FHFA's costs and expenses, as well as to maintain FHFA's working capital. We recognized FHFA assessment fees, which are recorded in "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income, of $35 million and $29 million for the three months ended June 30, 2020 and 2019, respectively, and $67 million and $59 million for the six months ended June 30, 2020 and 2019, respectively.

Transactions with CSS and Freddie Mac

We contributed capital to CSS, the company we jointly own with Freddie Mac, of $19 million and $26 million for the three months ended June 30, 2020 and 2019, respectively, and $48 million and $62 million for the six months ended June 30, 2020 and 2019, respectively.

Principles of Consolidation

Our condensed consolidated financial statements include our accounts as well as the accounts of the other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. The typical condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. A controlling financial interest may also exist in entities through arrangements that do not involve voting interests, such as a variable interest entity ("VIE").

Investments in Securities

Impairment of Available-for-Sale Debt Securities

An available-for-sale ("AFS") debt security is impaired if the fair value of the investment is less than its amortized cost basis. Credit losses (benefits) on impaired AFS debt securities are recognized through an allowance for credit losses. Credit losses are evaluated on an individual security basis and are limited to the difference between the fair value of the debt security and its amortized cost basis. If we intend to sell a debt security or it is more likely than not that we will be required to sell the debt security before recovery, any allowance for credit losses on the debt security is reversed and the amortized cost basis of the debt security is written down to its fair value.

Mortgage Loans

Loans Held for Sale

When we acquire mortgage loans that we intend to sell or securitize via trusts that will not be consolidated, we classify the loans as held for sale ("HFS"). We report the carrying value of HFS loans at the lower of cost or fair value. Any excess of an HFS loan's cost over its fair value is recognized as a valuation allowance, with changes in the valuation allowance recognized as "Investment gains (losses), net" in our condensed consolidated statements of operations and comprehensive income. We recognize interest income on HFS loans on an accrual basis, unless we determine that the ultimate collection of contractual principal or interest payments in full is not reasonably assured. Purchased premiums, discounts and other cost basis adjustments on HFS loans are deferred upon loan acquisition, included in the cost basis of the loan, and not amortized. We determine any lower of cost or fair value adjustment on HFS loans at an individual loan level.

For nonperforming loans transferred from held for investment ("HFI") to HFS, based upon a change in our intent, we record the loans at the lower of cost or fair value on the date of transfer. When the fair value of the nonperforming loan is less than its amortized cost, we record a write-off against the allowance for loan losses in an amount equal to the difference between the amortized cost basis and the fair value of the loan. If the amount written off upon transfer exceeds the allowance related to the transferred loan, we record the excess in provision for credit losses. If the amounts written off are less than the allowance related to the loans, we recognize a benefit for credit losses.

Nonperforming loans include both seriously delinquent and reperforming loans, which are loans that were previously delinquent but are performing again because payments on the mortgage loan have become current with or without the use of a loan modification plan. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.

In the event that we reclassify a performing loan from HFI to HFS, based upon a change in our intent, the allowance for loan losses previously recorded on the HFI mortgage loan is reversed through earnings at the time of reclassification. The mortgage loan is reclassified into HFS at its amortized cost basis and a valuation allowance is established to the extent that the amortized cost basis of the loan exceeds its fair value. The initial recognition of the valuation allowance and any subsequent changes are recorded as a gain or loss in "Investment gains (losses), net."

Loans Held for Investment

When we acquire mortgage loans that we have the ability and the intent to hold for the foreseeable future or until maturity, we classify the loans as HFI. When we consolidate a securitization trust, we recognize the loans underlying the trust in our condensed consolidated balance sheets. The trusts do not have the ability to sell mortgage loans and the use of such loans is limited exclusively to the settlement of obligations of the trusts. Therefore, mortgage loans acquired when we have the intent to securitize via consolidated trusts are generally classified as HFI in our condensed consolidated balance sheets both prior to and subsequent to their securitization.

We report the carrying value of HFI loans at the unpaid principal balance net of unamortized premiums and discounts, other cost basis adjustments, and allowance for loan losses. We define the amortized cost of HFI loans as unpaid principal balance and accrued interest receivable, net, including any unamortized premiums, discounts, and other cost basis adjustments. For purposes of our condensed consolidated balance sheets, we present accrued interest receivable separately from the amortized cost of our loans held for investment. We recognize interest income on HFI loans on an accrual basis using the effective yield method over the contractual life of the loan, including the amortization of any deferred cost basis adjustments, such as the premium or discount at acquisition, unless we determine that the ultimate collection of contractual principal or interest payments in full is not reasonably assured.

Nonaccrual Loans

For loans that were current as of March 1, 2020 and subsequently went delinquent and/or requested forbearance during the COVID-19 pandemic, see the changes to our application of our nonaccrual guidance in the section on New Accounting Guidance below.

For loans not subject to the COVID-19-related nonaccrual guidance, we discontinue accruing interest on loans when we believe collectability of principal or interest is not reasonably assured, which for a single-family loan we have determined, based on our historical experience, to be when the loan becomes two months or more past due according to its contractual terms. Interest previously accrued but not collected on loans is reversed through interest income at the date a loan is placed on nonaccrual status. For single-family loans on nonaccrual status, we recognize income when cash payments are received. We return a non-modified single-family loan to accrual status at the point that the borrower brings the loan current. We return a modified single-family loan to accrual status at the point that the borrower successfully makes all required payments during the trial period (generally three to four months) and the modification is made permanent. As of January 1, 2020, we place a multifamily loan on nonaccrual status when the loan becomes two months or more past due according to its contractual terms unless the loan is well secured such that collectability of principal and accrued interest is reasonably assured. For multifamily loans on nonaccrual status, we apply any payment received on a cost recovery basis to reduce principal on the mortgage loan. We return a multifamily loan to accrual status when the borrower cures the delinquency of the loan. Transactions related to the multifamily nonaccrual policy have been immaterial historically. Single-family and multifamily loans are reported past due if a full payment of principal and interest is not received within one month of its due date.

Allowance for Loan Losses

Our allowance for loan losses is a valuation account that is deducted from the amortized cost basis of HFI loans to present the net amount expected to be collected on the loans. The allowance for loan losses reflects an estimate of expected credit losses on single-family and multifamily HFI loans held by Fannie Mae and by consolidated Fannie Mae MBS trusts. Estimates of credit losses are based on expected cash flows derived from internal models that estimate loan performance under simulated ranges of economic environments. Our modeled loan performance is based on our historical experience of loans with similar risk characteristics adjusted to reflect current conditions and reasonable and supportable forecasts. Our historical loss experience and our credit loss estimates capture the possibility of remote events that could result in credit losses on loans that are considered low risk. The allowance for loans losses does not consider benefits from freestanding credit enhancements, such as our CAS and CIRT programs and multifamily DUS lender risk-sharing arrangements, which are recorded in “Other assets” in our condensed consolidated balance sheets. For loans that were current as of March 1, 2020 and subsequently became delinquent or entered into forbearance during the COVID-19 pandemic, see changes to our allowance for loan losses in the section on New Accounting Guidance below. For loans not subject to the COVID-19 related guidance, we have elected not to measure an allowance for credit losses on accrued interest receivable balances as we have a nonaccrual policy to ensure the timely reversal of unpaid accrued interest. See “Note 4, Allowance for Loan Losses” for additional information about our current period provision for loan losses, including a discussion of the estimates used in measuring the impact of the COVID-19 pandemic on our allowance.

Changes to our estimate of expected credit losses, including changes due to the passage of time, are recorded through the benefit (provision) for credit losses. When calculating our allowance for loan losses, we consider only our amortized cost in the loans at the balance sheet date. We record write-offs as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in satisfaction of a loan, such as the underlying collateral upon foreclosure or cash upon completion of a short sale. Additionally, we record write-offs as a reduction to our allowance for loan losses when a loan is determined to be uncollectible and upon the transfer of a nonperforming loan from HFI to HFS. We include expected recoveries of amounts previously written off and expected to be written off in determining our allowance for loan losses.

Single-Family Loans

We estimate the amount expected to be collected on our single-family loans using a discounted cash flow approach. Our allowance for loan losses is calculated as the difference between the amortized cost basis of the loan and the present value of expected cash flows on the loan. Expected cash flows include payments from the borrower, net of servicing fees, contractually attached credit enhancements and proceeds from the sale of the underlying collateral, net of selling costs.

When foreclosure of a single-family loan is probable, the allowance for loan losses is calculated as the difference between the amortized cost basis of the loan and the fair value of the collateral as of the reporting date, adjusted for the estimated costs to sell the property and the amount of expected recoveries from contractually attached credit enhancements or other proceeds we expect to receive.

Expected cash flows are developed using internal models that capture market and loan characteristic inputs. Market inputs include information such as actual and forecasted home prices, interest rates, volatility, and spreads, while loan characteristic inputs include information such as mark-to-market loan-to-value (“LTV”) ratios, delinquency status, geography, and borrower FICO credit scores. The model assigns a probability to borrower events including contractual payment, loan payoff and default under various economic environments based on historical data, current conditions, and reasonable and supportable forecasts.

The two primary drivers of our forecasted economic environments are interest rates and home prices. Our model projects the range of possible interest rate scenarios over the life of the loan based on actual interest rates and observed option pricing volatility in the capital markets. We develop regional forecasts based on Metropolitan Statistical Area data for single-family home prices using a multi-path simulation that captures home price projections over a five-year period, the period for which we can develop reasonable and supportable forecasts. After the five-year period, the home price forecast immediately reverts to a historical long-term growth rate.

Expected cash flows on the loan are discounted at the effective interest rate on the loan, adjusted for expected prepayments. For single-family loans that have not been modified in a troubled debt restructuring (“TDR”), the discount rate is updated each reporting period to reflect changes in expected prepayments. Expected cash flows do not include expected extensions of the contractual term unless such extension is the result of a reasonably expected TDR.

We consider the effects of actual and reasonably expected TDRs in our estimate of credit losses. These effects include any economic concession provided or expected to be provided to a borrower experiencing financial difficulty. We consider our current servicing practices and our historical experience to estimate reasonably expected TDRs. When a loan is contractually modified in a TDR, to capture the concession, the discount rate on the loan is locked to the rate in effect just prior to the modification and is no longer updated for changes in expected prepayments.

Multifamily Loans

Our allowance for loan losses on multifamily loans is calculated based on estimated probabilities of default and loss severities to derive expected loss ratios, which are then applied to the amortized cost basis of the loans. Our probabilities of default and severity are estimated using internal models based on historical loss experience of loans with similar risk characteristics that affect credit performance, such as debt service coverage ratio ("DSCR"), mark-to-market LTV ratio, collateral type, age, loan size, geography, prepayment penalty term, and note type. Our models simulate a range of possible future economic scenarios, which are used to estimate probabilities of default and loss severities. Key inputs to our models include rental income, which drives expected DSCRs for our loans, and capitalization rates, which project future property values. Our reasonable and supportable forecasts for multifamily rental income and capitalization rates, which are projected based on Metropolitan Statistical Area data, extend through the contractual maturity of the loans. For TDRs, we use a discounted cash flow approach to estimate expected credit losses.

When foreclosure of a multifamily loan is probable, the allowance for loan losses is calculated as the difference between the amortized cost basis of the loan and the fair value of the collateral as of the reporting date, adjusted for the estimated costs to sell the property and the amount of expected recoveries from contractually attached credit enhancements or other proceeds we expect to receive.

Earnings per Share

Earnings per share ("EPS") is presented for basic and diluted EPS. We compute basic EPS by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. However, as a result of our conservatorship status and the terms of the senior preferred stock, no amounts would be available to distribute as dividends to common or preferred stockholders (other than to Treasury as the holder of the senior preferred stock). Net income (loss) attributable to common stockholders excludes amounts attributable to the senior preferred stock. Weighted average common shares include 4.7 billion and 4.6 billion shares for the periods ended June 30, 2020 and 2019, respectively, that would be issued upon the full exercise of the warrant issued to Treasury from the date the warrant was issued through June 30, 2020 and 2019, respectively.

The calculation of diluted EPS includes all the components of basic earnings per share, plus the dilutive effect of common stock equivalents such as convertible securities and stock options. Weighted average shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Our diluted EPS weighted-average shares outstanding includes 26 million and 131 million shares issuable upon the conversion of convertible preferred stock as of June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020, convertible preferred stock is not included in the calculation because a net loss attributable to common shareholders was incurred and it would have an anti-dilutive effect.

New Accounting Guidance

The CARES Act and Interagency Regulatory Guidance

Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act, referred to as the CARES Act, which was enacted in March 2020, provides temporary relief from the accounting and reporting requirements for TDRs regarding certain loan modifications related to COVID-19. The CARES Act provides that a financial institution may elect to suspend the TDR requirements under GAAP for loan modifications related to the COVID-19 pandemic that occur between March 1, 2020 through the earlier of December 31, 2020 or 60 days after the date on which the COVID-19 national emergency terminates (the "Applicable Period"), as long as the loan was not more than 30 days delinquent as of December 31, 2019. Loan modifications are defined in this section of the CARES Act to include forbearance arrangements, repayment plans, interest rate modifications, and any similar arrangement that defer or delay the payment of principal or interest.

We have elected to account for eligible loan modifications under Section 4013 of the CARES Act. Therefore, the initial relief (i.e., the forbearance arrangement) and the subsequent agreements (i.e., repayment plans and loan modifications) that are necessary to allow the borrower to repay the past due amounts (collectively, the "COVID-19 Relief"), will not be subject to the specialized accounting or disclosures that are required for TDRs if the initial relief related to COVID-19 is granted during the Applicable Period and the borrower was no more than 30 days past due as of December 31, 2019.

In addition to the CARES Act, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau and the State Banking Regulators (collectively, the "Banking Agencies") issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (the "Interagency Statement") in April 2020. The Interagency Statement primarily provides incremental guidance related to the nonaccrual of interest income. It indicates that financial institutions may continue to accrue interest income on loans that are granted short-term payment delays, such as forbearance, if the delay is in response to COVID-19 and the loan was less than 30 days past due at the time the delay was granted.

Pursuant to the Interagency Statement, we will continue to recognize interest income at the current contractual yield for up to six months on loans that were current at March 1, 2020 and have been negatively impacted by COVID-19. For loans that are in a forbearance plan beyond six months of delinquency, we will continue to accrue interest income provided collection of principal and interest continues to be reasonably assured.

Our evaluation of whether the collection of principal and interest is reasonably assured will consider the probability of default, the current value of the collateral, and any proceeds that are expected from contractually attached mortgage insurance. Once the forbearance period has ended, we will also consider the extent to which the borrower and the servicer have agreed to any of the loss mitigation options that are available. For single-family loans placed on nonaccrual status, cash payments are applied as a reduction of accrued interest receivable until the receivable has been reduced to zero, and then we recognize income on a cash basis when payments are received.

For multifamily loans on nonaccrual status, we apply any payment received on a cost recovery basis to reduce accrued interest receivable to zero and then reduce principal on the mortgage loan. Multifamily loans will not be placed on nonaccrual status while the loan is well secured and in the process of collection.

For loans that have been negatively impacted by COVID-19, we establish a valuation allowance for expected credit losses on the accrued interest receivable balance applying the process that we have established for both single-family and multifamily loans. The credit expense related to this valuation allowance is classified as a component of the provision for credit losses. This receivable is written off when the amount is deemed to be uncollectible, in accordance with our write-off policy for mortgage loans.

As a result of this update to the application of our nonaccrual policy for loans negatively impacted by COVID-19, we recognized $1.5 billion in interest income for the three and six months ended June 30, 2020. We also recognized $172 million of provision for loan losses on the related accrued interest receivable as of June 30, 2020.

The Current Expected Credit Loss Standard

The Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments in June 2016, which was later amended by ASU 2019-04, ASU 2019-05 and ASU 2019-11. These ASUs (the “CECL standard”) replaced the existing incurred loss impairment methodology for loans that are collectively evaluated for impairment with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable forecast information to develop a lifetime credit loss estimate. The CECL standard also requires credit losses related to AFS debt securities to be recorded through an allowance for credit losses. Our adoption of this standard on January 1, 2020 did not have a material impact on our portfolio of AFS debt securities.

The CECL standard became effective for our fiscal year beginning January 1, 2020. We have changed our accounting policies as described above and implemented system, model and process changes to adopt the standard. Upon adoption, we used a discounted cash flow method to measure expected credit losses on our single-family mortgage loans and an undiscounted loss method to measure expected credit losses on our multifamily mortgage loans. The models used to estimate credit losses incorporated our historical credit loss experience, adjusted for current economic forecasts and the current credit profile of our loan book of business. The models used reasonable and supportable forecasts for key economic drivers, such as home prices (single-family), rental income (multifamily) and capitalization rates (multifamily).

The adoption of the CECL standard on January 1, 2020 reduced our retained earnings by $1.1 billion on an after-tax basis. The adoption of this guidance increased our overall credit loss reserves primarily as the result of an increase in our single-family loan loss reserves that were previously evaluated on a collective basis for impairment. This increase was partially offset by a decrease in estimated credit losses on loans that were previously considered individually impaired (our TDRs).

The increase in our single-family loan loss reserves that were previously evaluated on a collective basis was primarily driven by the migration from an incurred-loss approach, which allowed us to consider only default events and economic conditions that already existed as of each financial reporting date, to an estimate that incorporates both expected default events over the expected life of each mortgage loan and a forecast of home prices in different economic environments over a reasonable and supportable period. The increase in loss reserves for this portion of our book was low relative to its size due to the credit quality of these loans and because as of the date of adoption our current model forecasted home price growth.

The allowance for loan losses on the TDR book was already measured using an expected lifetime credit loss estimate. The credit losses on this portion of our single-family book decreased upon the adoption of the CECL standard because the new guidance required us to exclude from our estimate of credit losses all pre-foreclosure and post-foreclosure costs that are expected to be advanced after the balance sheet date. Prior to the adoption of the CECL standard, we incorporated these costs in our estimate of credit losses for this book.

Impacts on Key Balance Sheet Line Items upon Implementation of the CECL Standard

The following table discloses the impact of adopting the CECL standard on key balance sheet line items.

	Balance as of December 31, 2019	Transition Impact of Adoption of the CECL Standard	Balance as of January 1, 2020
		(Dollars in millions)	
Mortgage loans held for sale	$ 6,773	$ 50	$ 6,823
Allowance for loan losses	(9,016)	(1,722)	(10,738)
Other assets[1]	14,312	230	14,542
Deferred tax assets, net	11,910	303	12,213
Accumulated deficit (beginning retained earnings)	(118,776)	(1,139)	(119,915)

(1) Transition adjustment primarily represents the reclassification and recognition of freestanding credit enhancements not contractually attached to the loan.

For a discussion of the current period measurement of our allowance for loan losses under the CECL standard, including the expected impact of the COVID-19 pandemic, see “Note 4, Allowance for Loan Losses.”

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”), which provides optional temporary relief to ease the potential burden of transitioning away from LIBOR and other discontinued interest rates. Specifically, ASU 2020-04 provides optional practical expedients and exceptions under GAAP related to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued. Qualifying for the accounting relief provided by ASU 2020-04 is subject to meeting certain criteria and is generally only available to contract modifications made and hedging relationships entered into or evaluated prospectively from March 12, 2020 through December 31, 2022.

In May 2020, we modified trust agreements governing our Fannie Mae REMIC and other multi-class transactions issued prior to July 2013 that are backed by floating rate or reverse floating rate securities to include fallback provisions in order to ease the potential burden of transitioning away from LIBOR. The update to the fallback language in the Omnibus Trust Supplement qualified for the accounting relief provided by ASU 2020-04, and we accounted for the update as a modification to the existing agreements. The impact of the May 2020 agreement modifications governing Fannie Mae REMIC and multi-class transactions issued prior to July 2013 was not material to Fannie Mae. We had no hedge accounting relationships between March 12, 2020 and June 30, 2020. We will continue to evaluate ASU 2020-04 to determine the timing and extent to which we will apply the provided accounting relief.

2. Consolidations and Transfers of Financial Assets

We have interests in various entities that are considered to be variable interest entities (“VIEs”). The primary types of entities are securitization and resecuritization trusts, limited partnerships and special purpose vehicles (“SPVs”). These interests include investments in securities issued by VIEs, such as Fannie Mae MBS created pursuant to our securitization transactions and our guaranty to the entity. We consolidate the substantial majority of our single-class securitization trusts because our role as guarantor and master servicer provides us with the power to direct matters (primarily the servicing of mortgage loans) that impact the credit risk to which we are exposed. In contrast, we do not consolidate single-class securitization trusts when other organizations have the power to direct these activities unless we have the unilateral ability to dissolve the trust. We also do not consolidate our resecuritization trusts unless we have the unilateral ability to dissolve the trust. Historically, the vast majority of underlying assets of our resecuritization trusts were limited to Fannie Mae securities that were collateralized by mortgage loans held in consolidated trusts. However, with our issuance of UMBS, we include securities issued by Freddie Mac in some of our resecuritization trusts. The mortgage loans that serve as collateral for Freddie Mac-issued securities are not held in trusts that are consolidated by Fannie Mae.

Unconsolidated VIEs

We do not consolidate VIEs when we are not deemed to be the primary beneficiary. Our unconsolidated VIEs include securitization and resecuritization trusts, limited partnerships, and certain SPVs designed to transfer credit risk. The following table displays the carrying amount and classification of our assets and liabilities that relate to our involvement with unconsolidated securitization and resecuritization trusts.

	As of	
	June 30, 2020	December 31, 2019
	(Dollars in millions)	
Assets and liabilities recorded in our condensed consolidated balance sheets related to unconsolidated mortgage-backed trusts:		
Assets:		
Trading securities:		
Fannie Mae	**$ 6,224**	$ 2,543
Non-Fannie Mae	**3,581**	5,100
Total trading securities	**9,805**	7,643
Available-for-sale securities:		
Fannie Mae	**1,395**	1,524
Non-Fannie Mae	**452**	574
Total available-for-sale securities	**1,847**	2,098
Other assets	**43**	56
Other liabilities	**(69)**	(78)
Net carrying amount	**$ 11,626**	$ 9,719

Our maximum exposure to loss generally represents the greater of our carrying value in the entity or the unpaid principal balance of the assets covered by our guaranty. Our involvement in unconsolidated resecuritization trusts may give rise to additional exposure to loss depending on the type of resecuritization trust. Fannie Mae non-commingled resecuritization trusts are backed entirely by Fannie Mae MBS. These non-commingled single-class and multi-class resecuritization trusts are not consolidated and do not give rise to any additional exposure to loss as we already consolidate the underlying collateral.

Fannie Mae commingled resecuritization trusts are backed in whole or in part by Freddie Mac securities. The guaranty that we provide to these commingled resecuritization trusts may increase our exposure to loss to the extent that we are providing a guaranty for the timely payment and interest on the underlying Freddie Mac securities that we have not previously guaranteed. Our maximum exposure to loss for these unconsolidated trusts is measured by the amount of Freddie Mac securities that are held in these resecuritization trusts. However, a portion of these Freddie Mac securities may be backed in whole or in part by Fannie Mae MBS. To the extent that these Freddie Mac securities are backed by Fannie Mae MBS, our guarantee to the resecuritization trust does not subject us to any additional exposure to credit risk. Thus, our actual exposure to credit risk from Freddie Mac securities held in our resecuritization trusts is likely lower than the disclosed maximum exposure to loss. Our maximum exposure to loss related to unconsolidated securitization and resecuritization trusts was approximately $111 billion and $62 billion as of June 30, 2020 and December 31, 2019, respectively. The total assets of our unconsolidated securitization and resecuritization trusts were approximately $170 billion and $130 billion as of June 30, 2020 and December 31, 2019, respectively.

The maximum exposure to loss for our unconsolidated limited partnerships and similar legal entities, which consist of low-income housing tax credit investments (“LIHTC”), community investments and other entities, was $94 million and the related net carrying value was $87 million as of June 30, 2020. As of December 31, 2019, the maximum exposure to loss was $98 million and the related net carrying value was $79 million. The total assets of these limited partnership investments were $1.6 billion as of June 30, 2020 and $2.0 billion as of December 31, 2019.

The maximum exposure to loss related to our involvement with unconsolidated SPVs that transfer credit risk represents the unpaid principal balance and accrued interest payable of obligations issued by the Connecticut Avenue Securities (“CAS”) and Multifamily Connecticut Avenue Securities (“MCAS”) SPVs. The maximum exposure to loss related to these unconsolidated SPVs was $11.2 billion and $9.5 billion as of June 30, 2020 and December 31, 2019, respectively. The total assets related to these unconsolidated SPVs were $11.2 billion and $9.5 billion as of June 30, 2020 and December 31, 2019, respectively.

The unpaid principal balance of our multifamily loan portfolio was $346.9 billion as of June 30, 2020. As our lending relationship does not provide us with a controlling financial interest in the borrower entity, we do not consolidate these borrowers regardless of their status as either a VIE or a voting interest entity. We have excluded these entities from our VIE disclosures. However, the disclosures we have provided in “Note 3, Mortgage Loans,” “Note 4, Allowance for Loan Losses” and “Note 6, Financial Guarantees” with respect to this population are consistent with the FASB’s stated objectives for the disclosures related to unconsolidated VIEs.

Transfers of Financial Assets

We issue Fannie Mae MBS through portfolio securitization transactions by transferring pools of mortgage loans or mortgage-related securities to one or more trusts or special purpose entities. We are considered to be the transferor when we transfer assets from our own retained mortgage portfolio in a portfolio securitization transaction. For the three months ended June 30, 2020 and 2019, the unpaid principal balance of portfolio securitizations was $202.9 billion and $57.3 billion, respectively. For the six months ended June 30, 2020 and 2019, the unpaid principal balance of portfolio securitizations was $291.9 billion and $98.7 billion, respectively. The substantial majority of these portfolio securitization transactions generally do not qualify for sale treatment. Portfolio securitization trusts that do qualify for sale treatment primarily consist of loans that are guaranteed or insured, in whole or in part, by the U.S. government.

We retain interests from the transfer and sale of mortgage-related securities to unconsolidated single-class and multi-class portfolio securitization trusts. As of June 30, 2020, the unpaid principal balance of retained interests was $2.7 billion and its related fair value was $4.0 billion. As of December 31, 2019, the unpaid principal balance of retained interests was $2.9 billion and its related fair value was $4.0 billion. For the three months ended June 30, 2020 and 2019, the principal, interest and other fees received on retained interests was $170 million and $122 million, respectively. For the six months ended June 30, 2020 and 2019, the principal, interest and other fees received on retained interests was $351 million and $238 million, respectively.

3. Mortgage Loans

We own single-family mortgage loans, which are secured by four or fewer residential dwelling units, and multifamily mortgage loans, which are secured by five or more residential dwelling units. We classify these loans as either HFI or HFS. We report the amortized cost of HFI loans for which we have not elected the fair value option at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable, net. For purposes of our condensed consolidated balance sheet, we present accrued interest receivable, net separately from the amortized cost of our loans held for investment. We report the carrying value of HFS loans at the lower of cost or fair value and record valuation changes in “Investment gains (losses), net” in our condensed consolidated statements of operations and comprehensive income.

For purposes of the single-family mortgage loan disclosures below, we display loans by class of financing receivable type. In the current period, we revised the financing receivable classes used for disclosure to consist of: “20- and 30-year or more, amortizing fixed-rate,” “15-year or less, amortizing fixed-rate,” “Adjustable-rate,” and “Other.” The “Other” class primarily consists of reverse mortgage loans, interest-only loans, negative-amortizing loans and second liens. We believe the revised classifications are more aligned with how we assess and manage the credit risk of our loans. We have revised the presentation of certain loan disclosures for prior periods to conform with the revised current period classes of financing receivables.

The following table displays the carrying value of mortgage loans and our allowance for loan losses.

	As of	
	June 30, 2020	**December 31, 2019**
	(Dollars in millions)	
Single-family	**$ 3,070,902**	$ 2,972,361
Multifamily	**346,932**	327,593
Total unpaid principal balance of mortgage loans	**3,417,834**	3,299,954
Cost basis and fair value adjustments, net	**54,467**	43,224
Allowance for loan losses	**(12,966)**	(9,016)
Total mortgage loans[1]	**$ 3,459,335**	$ 3,334,162

(1) Excludes $9.5 billion and $8.4 billion of accrued interest receivable, net of allowance on mortgage loans as of June 30, 2020 and December 31, 2019, respectively.

The following tables display information about our redesignation of loans from HFI to HFS and the sales of mortgage loans during the period.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Single family loans redesignated from HFI to HFS:				
Amortized cost	**$ —**	$ 7,188	**$ 1,637**	$ 10,133
Lower of cost or fair value adjustment at time of redesignation[1]	**—**	(479)	**(9)**	(719)
Allowance reversed at time of redesignation	**—**	902	**184**	1,369
Single-family loans sold:				
Unpaid principal balance	**$ 495**	$ 6,498	**$ 495**	$ 6,556
Realized gains, net	**40**	284	**40**	320

(1) Consists of the write-off against the allowance at the time of redesignation.

The amortized cost of single-family mortgage loans for which formal foreclosure proceedings were in process was $6.6 billion and $7.6 billion as of June 30, 2020 and December 31, 2019, respectively. As a result of our various loss mitigation and foreclosure prevention efforts, we expect that a portion of the loans in the process of formal foreclosure proceedings will not ultimately foreclose.

Aging Analysis

The following tables display an aging analysis of the total amortized cost of our HFI mortgage loans by portfolio segment and class, excluding loans for which we have elected the fair value option.

Pursuant to the CARES Act, for purposes of reporting to the credit bureaus, servicers must report a borrower receiving a COVID-19-related payment accommodation, such as a forbearance plan or loan modification, as current if the borrower was current prior to receiving the accommodation and the borrower makes all required payments in accordance with the accommodation. For purposes of our disclosures regarding delinquency status, we report loans receiving COVID-19-related payment forbearance as delinquent according to the contractual terms of the loan. The increase in loans classified as delinquent as of June 30, 2020 compared with December 31, 2019 was primarily attributable to the economic dislocation caused by the COVID-19 pandemic.

	As of June 30, 2020							
	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent[1]	Total Delinquent	Current	Total	Loans 90 Days or More Delinquent and Accruing Interest	Nonaccrual Loans with No Allowance
	(Dollars in millions)							
Single-family:								
20- and 30-year or more, amortizing fixed-rate	$ 39,079	$ 50,701	$ 81,322	$ 171,102	$ 2,440,848	$ 2,611,950	$ 63,592	$ 7,709
15-year or less, amortizing fixed-rate	3,048	4,164	4,784	11,996	389,389	401,385	4,175	554
Adjustable-rate	523	829	1,084	2,436	37,138	39,574	879	149
Other[2]	1,870	1,727	5,009	8,606	54,920	63,526	2,813	799
Total single-family	44,520	57,421	92,199	194,140	2,922,295	3,116,435	71,459	9,211
Multifamily[3]	1,160	N/A	3,614	4,774	345,870	350,644	1,447	35
Total	$ 45,680	$ 57,421	$ 95,813	$ 198,914	$ 3,268,165	$ 3,467,079	$ 72,906	$ 9,246

	As of December 31, 2019						
	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent(1)	Total Delinquent	Current	Total	Loans 90 Days or More Delinquent and Accruing Interest
	(Dollars in millions)						
Single-family:							
20- and 30-year or more, amortizing fixed-rate	$ 26,882	$ 7,126	$ 13,082	$ 47,090	$ 2,470,457	$ 2,517,547	$ 28
15-year or less, amortizing fixed-rate	1,616	286	445	2,347	371,740	374,087	—
Adjustable-rate	412	85	167	664	44,244	44,908	—
Other(2)	2,323	829	1,891	5,043	64,726	69,769	136
Total single-family	31,233	8,326	15,585	55,144	2,951,167	3,006,311	164
Multifamily(3)	7	N/A	115	122	330,496	330,618	—
Total	$ 31,240	$ 8,326	$ 15,700	$ 55,266	$ 3,281,663	$ 3,336,929	$ 164

(1) Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.

(2) Reverse mortgage loans included in “Other” are not aged due to their nature and are included in the current column.

(3) Multifamily loans 60-89 days delinquent are included in the seriously delinquent column.

Credit Quality Indicators

The following table displays the total amortized cost of our single-family HFI loans by class, year of origination and credit quality indicator, excluding loans for which we have elected the fair value option. The estimated mark-to-market LTV ratio is a primary factor we consider when estimating our allowance for loan losses for single-family loans. As LTV ratios increase, the borrower's equity in the home decreases, which may negatively affect the borrower's ability to refinance or to sell the property for an amount at or above the outstanding balance of the loan.

	As of June 30, 2020, by Year of Origination[1]						
	2020	2019	2018	2017	2016	Prior	Total
	(Dollars in millions)						
Estimated mark-to-market LTV ratio:[2]							
20- and 30-year or more, amortizing fixed-rate:							
Less than or equal to 80%	$ 294,252	$ 292,692	$ 161,857	$ 235,568	$ 288,585	$ 960,619	$ 2,233,573
Greater than 80% and less than or equal to 90%	58,979	102,702	58,330	21,836	5,206	10,422	257,475
Greater than 90% and less than or equal to 100%	58,649	49,724	4,377	808	255	3,749	117,562
Greater than 100%	10	55	62	130	134	2,949	3,340
Total 20 and 30-year or more, amortizing fixed-rate	411,890	445,173	224,626	258,342	294,180	977,739	2,611,950
15-year or less, amortizing fixed-rate:							
Less than or equal to 80%	66,148	52,825	20,646	39,058	55,074	160,012	393,763
Greater than 80% and less than or equal to 90%	3,234	2,578	287	35	16	35	6,185
Greater than 90% and less than or equal to 100%	1,093	269	6	8	5	16	1,397
Greater than 100%	—	—	5	7	6	22	40
Total 15-year or less, amortizing fixed-rate	70,475	55,672	20,944	39,108	55,101	160,085	401,385
Adjustable-rate:							
Less than or equal to 80%	1,834	2,390	3,428	6,818	3,706	20,340	38,516
Greater than 80% and less than or equal to 90%	163	287	319	101	14	32	916
Greater than 90% and less than or equal to 100%	67	55	9	5	—	5	141
Greater than 100%	—	—	—	—	—	1	1
Total adjustable-rate	2,064	2,732	3,756	6,924	3,720	20,378	39,574
Other:							
Less than or equal to 80%	—	43	347	859	1,112	41,160	43,521
Greater than 80% and less than or equal to 90%	—	3	29	65	48	2,101	2,246
Greater than 90% and less than or equal to 100%	—	1	14	28	22	1,011	1,076
Greater than 100%	—	1	8	16	15	1,015	1,055
Total other	—	48	398	968	1,197	45,287	47,898
Total	$ 484,429	$ 503,625	$ 249,724	$ 305,342	$ 354,198	$ 1,203,489	$ 3,100,807
Total for all classes by LTV ratio:[2]							
Less than or equal to 80%	$ 362,234	$ 347,950	$ 186,278	$ 282,303	$ 348,477	$ 1,182,131	$ 2,709,373
Greater than 80% and less than or equal to 90%	62,376	105,570	58,965	22,037	5,284	12,590	266,822
Greater than 90% and less than or equal to 100%	59,809	50,049	4,406	849	282	4,781	120,176
Greater than 100%	10	56	75	153	155	3,987	4,436
Total	$ 484,429	$ 503,625	$ 249,724	$ 305,342	$ 354,198	$ 1,203,489	$ 3,100,807

	As of December 31, 2019[1]				
	20- and 30-Year or More, Amortizing Fixed-Rate	15-Year or Less, Amortizing Fixed-Rate	Adjustable-Rate	Other	Total
	(Dollars in millions)				
Estimated mark-to-market LTV ratio:[2]					
Less than or equal to 80%	$ 2,145,018	$ 368,181	$ 43,415	$ 47,005	$ 2,603,619
Greater than 80% and less than or equal to 90%	237,623	4,556	1,275	2,872	246,326
Greater than 90% and less than or equal to 100%	130,152	1,284	215	1,398	133,049
Greater than 100%	4,754	66	3	1,365	6,188
Total	$ 2,517,547	$ 374,087	$ 44,908	$ 52,640	$ 2,989,182

(1) Excludes $15.6 billion and $17.1 billion as of June 30, 2020 and December 31, 2019, respectively, of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies, which represents primarily reverse mortgages for which we do not calculate an estimated mark-to-market LTV ratio.

(2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan divided by the estimated current value of the property as of the end of each reported period, which we calculate using an internal valuation model that estimates periodic changes in home value.

The following table displays the total amortized cost of our multifamily HFI loans by year of origination and credit-risk rating, excluding loans for which we have elected the fair value option. Property rental income and property valuations are key inputs to our internally assigned credit risk ratings.

	As of June 30, 2020, by Year of Origination						
	2020	2019	2018	2017	2016	Prior	Total
	(Dollars in millions)						
Internally assigned credit risk rating:							
Non-classified[1]	$ 29,922	$ 69,049	$ 63,048	$ 52,321	$ 45,235	$ 81,098	$ 340,673
Classified[2]	6	707	1,361	2,665	1,642	3,590	9,971
Total	$ 29,928	$ 69,756	$ 64,409	$ 54,986	$ 46,877	$ 84,688	$ 350,644

	As of December 31, 2019
	(Dollars in millions)
Internally assigned credit risk rating:	
Non-classified[1]	$ 323,773
Classified[2]	6,845
Total	$ 330,618

(1) A loan categorized as “Non-classified” is current or adequately protected by the current financial strength and debt service capability of the borrower.

(2) Represents loans classified as “Substandard” or “Doubtful.” Loans classified as “Substandard” have a well-defined weakness that jeopardizes the timely full repayment. “Doubtful” refers to a loan with a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions and values. As of June 30, 2020 and December 31, 2019, we had loans with an amortized cost of $14 million and $5 million, respectively, classified as doubtful.

Troubled Debt Restructurings

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a TDR. In addition to formal loan modifications, we also engage in other loss mitigation activities with troubled borrowers, which include repayment plans and forbearance arrangements, both of which represent informal agreements with the borrower that do not result in the legal modification of the loan's contractual terms. We account for these informal restructurings as a TDR if we defer more than three missed payments. We also classify loans to certain borrowers who have received bankruptcy relief as TDRs. However, our current TDR accounting described herein is temporarily impacted by our election to account for certain eligible loan modifications under the COVID-19 Relief granted pursuant to the CARES Act. See "Note 1, Summary of Significant Accounting Policies" for more information on the impact of the CARES Act.

The substantial majority of the loan modifications accounted for as a TDR result in term extensions, interest rate reductions or a combination of both. The average term extension of a single-family modified loan was 168 months and 160 months for the three months ended June 30, 2020 and 2019, respectively. The average interest rate reduction was 0.34 and 0.10 percentage points, for the three months ended June 30, 2020 and 2019, respectively. During the six months ended June 30, 2020 and 2019, the average term extension of a single-family modified loan was 168 months and 158 months, respectively, and the average interest rate reduction was 0.33 and 0.10 percentage points, respectively.

The following tables display the number of loans and amortized cost in loans classified as a TDR.

	For the Three Months Ended June 30,			
	2020		2019	
	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
	(Dollars in millions)			
Single-family:				
20- and 30-year or more, amortizing fixed-rate	**8,511**	**$ 1,497**	10,402	$ 1,706
15-year or less, amortizing fixed-rate	**796**	**68**	1,181	106
Adjustable-rate	**142**	**22**	213	31
Other	**556**	**70**	799	109
Total single-family	**10,005**	**1,657**	12,595	1,952
Multifamily	**—**	**—**	3	20
Total TDRs	**10,005**	**$ 1,657**	12,598	$ 1,972

	For the Six Months Ended June 30,			
	2020		2019	
	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
	(Dollars in millions)			
Single-family:				
20- and 30-year or more, amortizing fixed-rate	**19,367**	**$ 3,406**	21,847	$ 3,532
15-year or less, amortizing fixed-rate	**1,869**	**166**	2,476	220
Adjustable-rate	**286**	**46**	430	63
Other	**1,093**	**138**	1,735	236
Total single-family	**22,615**	**3,756**	26,488	4,051
Multifamily	**—**	**—**	6	33
Total TDRs	**22,615**	**$ 3,756**	26,494	$ 4,084

For loans that defaulted in the period presented and that were classified as a TDR in the twelve months prior to the default, the following table displays the number of loans and the amortized cost of these loans at the time of payment default. For purposes of this disclosure, we define loans that had a payment default as: single-family and multifamily loans with completed TDRs that liquidated during the period, either through foreclosure, deed-in-lieu of foreclosure, or a short sale; single-family loans with completed modifications that are two or more months delinquent during the period; or multifamily loans with completed modifications that are one or more months delinquent during the period.

	For the Three Months Ended June 30,			
	2020		2019	
	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
	(Dollars in millions)			
Single-family:				
20- and 30-year or more, amortizing fixed-rate	**5,398**	**$ 1,066**	3,913	$ 594
15-year or less, amortizing fixed-rate	**35**	**3**	119	10
Adjustable-rate	**5**	**1**	15	2
Other	**548**	**94**	499	81
Total single-family	**5,986**	**1,164**	4,546	687
Multifamily	**2**	**14**	1	6
Total TDRs that subsequently defaulted	**5,988**	**$ 1,178**	4,547	$ 693

	For the Six Months Ended June 30,			
	2020		2019	
	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
	(Dollars in millions)			
Single-family:				
20- and 30-year or more, amortizing fixed-rate	**8,573**	**$ 1,587**	8,289	$ 1,258
15-year or less, amortizing fixed-rate	**85**	**6**	251	18
Adjustable-rate	**12**	**2**	23	3
Other	**875**	**145**	1,142	185
Total single-family	**9,545**	**1,740**	9,705	1,464
Multifamily	**4**	**16**	1	6
Total TDRs that subsequently defaulted	**9,549**	**$ 1,756**	9,706	$ 1,470

Nonaccrual Loans

The table below displays the forgone interest and the accrued interest receivable written off through the reversal of interest income for loans. For updates to our application of our nonaccrual policy for loans negatively impacted by the COVID-19 pandemic, see "Note 1, Summary of Significant Accounting Policies."

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	(Dollars in millions)	
Single-family:		
Total forgone interest[1]	$ 246	$ 420
Accrued interest receivable written off through the reversal of interest income	45	132
Multifamily:		
Total forgone interest[1]	$ 3	$ 3
Accrued interest receivable written off through the reversal of interest income	2	2

(1) For loans on nonaccrual status held as of period end, represents the amount of interest income we did not recognize but would have recognized if the loans had performed in accordance with their original contractual terms.

The table below includes the amortized cost of and interest income on our HFI single-family and multifamily loans on nonaccrual status by class, excluding loans for which we have elected the fair value option.

	As of				
	June 30, 2020	March 31, 2020	December 31, 2019	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	Amortized Cost			Total Interest Income Recognized[1]	
	(Dollars in millions)				
Single-family:					
20- and 30-year or more, amortizing fixed-rate	**$ 23,783**	$ 23,212	$ 23,427	**$ 75**	**$ 221**
15-year or less, amortizing fixed-rate	**844**	856	858	**2**	**6**
Adjustable-rate	**275**	279	288	**1**	**2**
Other	**2,851**	2,827	2,973	**10**	**27**
Total single-family	**27,753**	27,174	27,546	**88**	**256**
Multifamily	**316**	91	435	**—**	**1**
Total	**$ 28,069**	$ 27,265	$ 27,981	**$ 88**	**$ 257**

(1) Single-family interest income recognized includes payments received while the loans were performing as well as while on nonaccrual status, for loans held as of period end. Multifamily interest income recognized includes amounts accrued while the loans were performing and the amortization of any deferred cost basis adjustments, for nonaccrual loans held as of the end of each period.

Individually Impaired Loans

Prior to the adoption of the CECL standard, we recorded a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans. Individually impaired loans include TDRs, acquired credit-impaired loans and multifamily loans that we have assessed as probable that we will not collect all contractual amounts due, regardless of whether we are currently accruing interest, excluding loans classified as HFS and loans for which we have elected the fair value option. The following tables display the unpaid principal balance, total amortized cost, related allowance as of December 31, 2019 and average amortized cost, total interest income recognized, and interest income recognized on a cash basis for individually impaired loans for the three and six months ended June 30, 2019.

	As of December 31, 2019		
	Unpaid Principal Balance	Total Amortized Cost	Related Allowance for Loan Losses
	(Dollars in millions)		
Individually impaired loans:			
With related allowance recorded:			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	$ 63,091	$ 61,033	$ (5,851)
15-year or less, amortizing fixed-rate	954	960	(24)
Adjustable-rate	156	157	(9)
Other	15,181	14,078	(2,291)
Total single-family	79,382	76,228	(8,175)
Multifamily	314	315	(45)
Total individually impaired loans with related allowance recorded	79,696	76,543	(8,220)
With no related allowance recorded:[1]			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	18,372	17,578	—
15-year or less, amortizing fixed-rate	410	407	—
Adjustable-rate	265	265	—
Other	3,014	2,718	—
Total single-family	22,061	20,968	—
Multifamily	363	365	—
Total individually impaired loans with no related allowance recorded	22,424	21,333	—
Total individually impaired loans[2]	$ 102,120	$ 97,876	$ (8,220)

(1) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.

(2) Includes single-family loans restructured in a TDR with an amortized cost of $96.9 billion as of December 31, 2019. Includes multifamily loans restructured in a TDR with an amortized cost of $102 million as of December 31, 2019.

	For the Three Months Ended June 30, 2019		
	Average Amortized Cost	Total Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(Dollars in millions)		
Individually impaired loans:			
With related allowance recorded:			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	$ 72,782	$ 762	$ 71
15-year or less, amortizing fixed-rate	1,250	11	1
Adjustable-rate	130	1	—
Other	18,139	189	14
Total single-family	92,301	963	86
Multifamily	321	3	—
Total individually impaired loans with related allowance recorded	92,622	966	86
With no related allowance recorded:[1]			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	14,803	241	34
15-year or less, amortizing fixed-rate	308	4	1
Adjustable-rate	359	4	1
Other	2,870	55	6
Total single-family	18,340	304	42
Multifamily	397	6	—
Total individually impaired loans with no related allowance recorded	18,737	310	42
Total individually impaired loans	$ 111,359	$ 1,276	$ 128

	For the Six Months Ended June 30, 2019		
	Average Amortized Cost	Total Interest Income Recognized	Interest Income Recognized on a Cash Basis
	(Dollars in millions)		
Individually impaired loans:			
With related allowance recorded:			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	$ 74,478	$ 1,566	$ 149
15-year or less, amortizing fixed-rate	1,286	22	2
Adjustable-rate	124	3	—
Other	18,999	393	30
Total single-family	94,887	1,984	181
Multifamily	279	5	—
Total individually impaired loans with related allowance recorded	95,166	1,989	181
With no related allowance recorded:[1]			
Single-family:			
20- and 30-year or more, amortizing fixed-rate	14,640	453	61
15-year or less, amortizing fixed-rate	313	7	2
Adjustable-rate	379	9	1
Other	2,934	103	9
Total single-family	18,266	572	73
Multifamily	380	8	—
Total individually impaired loans with no related allowance recorded	18,646	580	73
Total individually impaired loans	$ 113,812	$ 2,569	$ 254

(1) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.

4. Allowance for Loan Losses

We maintain an allowance for loan losses for HFI loans held by Fannie Mae and by consolidated Fannie Mae MBS trusts, excluding loans for which we have elected the fair value option. When calculating our allowance for loan losses, we consider the unpaid principal balance, net of unamortized premiums and discounts, and other cost basis adjustments of HFI loans at the balance sheet date. We record write-offs as a reduction to our allowance for loan losses at the point of foreclosure, completion of a short sale, upon the redesignation of nonperforming loans from HFI to HFS or when a loan is determined to be uncollectible. See "Note 1, Summary of Significant Accounting Policies" for additional information and accounting policy changes resulting from our adoption of the CECL standard.

The following table displays changes in our allowance for single-family loans, multifamily loans and total allowance for loan losses, including the transition impact of adopting the CECL standard.

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
	(Dollars in millions)	
Single-family allowance for loan losses:		
Beginning balance	$ (12,070)	$ (8,759)
Transition impact of the adoption of the CECL standard	—	(1,229)
Benefit (provision) for loan losses	389	(1,788)
Write-offs	46	116
Recoveries	(3)	(6)
Other	40	68
Ending Balance	$ (11,598)	$ (11,598)
Multifamily allowance for loan losses:		
Beginning balance	$ (1,139)	$ (257)
Transition impact of the adoption of the CECL standard	—	(493)
Provision for loan losses	(228)	(635)
Write-offs	(1)	18
Recoveries	—	(1)
Ending Balance	$ (1,368)	$ (1,368)
Total allowance for loan losses:		
Beginning balance	$ (13,209)	$ (9,016)
Transition impact of the adoption of the CECL standard	—	(1,722)
Benefit (provision) for loan losses	161	(2,423)
Write-offs	45	134
Recoveries	(3)	(7)
Other	40	68
Ending Balance	$ (12,966)	$ (12,966)

Our benefit (provision) for loan losses can vary substantially from period to period based on a number of factors, such as changes in actual and forecasted home prices or property valuations, fluctuations in actual and forecasted interest rates, borrower payment behavior, events such as natural disasters or pandemics, the types and volume of our loss mitigation activities, including forbearance and loan modifications, the volume of foreclosures completed, and the redesignation of loans from HFI to HFS.

Estimating the impact of the COVID-19 pandemic on our expected credit loss reserves required significant management judgment as we continue to observe uncertainty in our economic forecast caused by elevated levels of unemployment, the impact of fiscal stimulus, and variability surrounding the continued spread of COVID-19; thereby impacting projected borrower behavior. We applied management judgment in estimating the number of single-family borrowers who will receive forbearance and any resulting repayment plans, deferrals, or loan modifications that will be provided once the forbearance period ends. Under our CECL methodology, depending on the type of loan modification granted, loss severity estimates vary. Our provision can also be impacted by updates to the models, assumptions, and data used in determining our allowance for loan losses.

The primary factors that impacted our single-family benefit (provision) for loan losses for the three and six months ended June 30, 2020 were:

- *Expected loan losses as a result of the COVID-19 pandemic,* which includes adjustments to modeled results. In the first quarter of 2020, the rapidly changing conditions as a result of the unprecedented COVID-19 pandemic caused us to believe our model used to estimate single-family credit losses does not capture the entirety of losses we expect to incur relating to COVID-19, which includes our expectations surrounding loan forbearance and borrower behavior once the forbearance period ends. As a result, management used its judgment to significantly increase the loss projections developed by our credit loss model in the first quarter of 2020, contributing to the provision for loan losses for the six months ended June 30, 2020.

  During the second quarter of 2020 our credit loss model consumed data from the initial months of the pandemic, including loan delinquencies, updated profile data for loans in forbearance, and an updated home price forecast. As more of this data was consumed by our credit loss model, we reduced our non-modeled adjustment. However, management continued to apply its judgment and supplement model results as of June 30, 2020, taking into account uncertainty regarding the type and extent of loss mitigation that may be needed when loans complete their forbearance period and the continued high degree of uncertainty regarding the future course of the pandemic and its effect on the economy, including the continued availability of fiscal stimulus to support borrowers.

  For the second quarter of 2020, our estimate of expected losses due to the pandemic, which includes both modeled and non-modeled adjustments, remained relatively flat compared with the first quarter. A reduction in overall expected forbearance volumes was offset by a weaker credit profile for loans entering forbearance. Furthermore, the positive impact of higher-than-initially-expected borrower prepayment activity was offset by heightened uncertainty as noted above.

- *Changes in our expectations for home price growth.* In the first quarter, we significantly reduced our expectations for home price growth to near-zero for 2020, which contributed to our provision for loan losses for the period. However, the negative impact from the first quarter was partially reduced in the second quarter as we revised our home price forecast to reflect an increase in home price appreciation on a national basis for 2020 based on strong home sales data for the period. This improvement in the 2020 home price forecast was partially offset by our updated long-term projected home price growth estimate, which was lowered as a result of a longer projected economic recovery period. Higher home prices decrease the likelihood that loans will default and decrease the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately decreases our loss reserves and provision for loan losses. Conversely, lower home prices increase the likelihood that loans will default, thereby increasing loss reserves and provision for loan losses.

- *Credit benefit from lower actual and projected mortgage interest rates.* As mortgage interest rates decline, we expect an increase in future prepayments on single-family loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the expected impairment relating to term and interest-rate concessions provided on these loans and results in a benefit for loan losses.

The primary factor that contributed to a decrease in single-family write-offs for the three and six months ended June 30, 2020 compared with the three and six months ended June 30, 2019 was a reduction in the number of reperforming loans redesignated from HFI to HFS.

The multifamily provision for loan losses for the three and six months ended June 30, 2020 was primarily driven by:

- *Actual and projected economic data and expected loan losses as a result of the COVID-19 pandemic.* Similar to the single-family provision for loan losses discussed above, we believe our model used to estimate multifamily loan losses as of June 30, 2020 does not capture the entirety of losses we expect to incur relating to COVID-19. As a result, management used its judgment to increase the loss projections developed by our credit loss model to reflect our current expectations relating to the impact of the pandemic. Accordingly, our multifamily provision for loan losses was primarily driven by elevated unemployment rates compared with pre-COVID-19 levels. We expect higher unemployment rates will reduce the operating income of multifamily properties in the near term, resulting in an increase in the number of loans in forbearance. Additionally, property values are expected to decrease, increasing the probability of loan defaults.

  In the second quarter, we increased our expected loan losses as a result of significant economic uncertainty and worsened forecasted capitalization rates. We also increased our expected loan losses on senior housing loans to reflect that these properties have been disproportionately impacted by the pandemic, which has resulted in increased operating expenses and has limited these borrowers’ ability to attract new tenants. These increases in expected loan losses were partially offset by a reduction in our overall estimated forbearance volumes and lower actual and projected interest rates. In developing these adjustments, management considered the current credit risk profile of our multifamily loan book of business, as well as relevant historical credit loss experience during rare or stressful economic environments.

The following tables display prior period changes in single-family and multifamily allowance for loan losses and the prior period amortized cost in our HFI loans by impairment or allowance methodology and portfolio segment prior to the adoption of the CECL standard. For a description of our previous allowance and impairment methodology refer to "Note 1, Summary of Significant Accounting Policies" in our 2019 Form 10-K.

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
	(Dollars in millions)	
Single-family allowance for loan losses:		
Beginning balance	$ (12,985)	$ (13,969)
Benefit (provision) for loan losses	1,239	1,886
Write-offs	558	939
Recoveries	(15)	(60)
Other	(7)	(6)
Ending Balance	$ (11,210)	$ (11,210)
Multifamily allowance for loan losses:		
Beginning balance	$ (247)	$ (234)
Benefit (provision) for loan losses	(27)	(40)
Write-offs	4	4
Recoveries	(2)	(2)
Ending Balance	$ (272)	$ (272)
Total allowance for loan losses:		
Beginning balance	$ (13,232)	$ (14,203)
Benefit (provision) for loan losses	1,212	1,846
Write-offs	562	943
Recoveries	(17)	(62)
Other	(7)	(6)
Ending Balance	$ (11,482)	$ (11,482)

	As of December 31, 2019		
	Single-Family	Multifamily	Total
	(Dollars in millions)		
Allowance for loan losses by segment:			
Individually impaired loans	$ (8,175)	$ (45)	$ (8,220)
Collectively reserved loans	(584)	(212)	(796)
Total allowance for loan losses	$ (8,759)	$ (257)	$ (9,016)
Amortized cost in loans by segment:			
Individually impaired loans	$ 97,196	$ 680	$ 97,876
Collectively reserved loans	2,909,115	329,938	3,239,053
Total amortized cost in loans	$ 3,006,311	$ 330,618	$ 3,336,929

5. Investments in Securities

Trading Securities

Trading securities are recorded at fair value with subsequent changes in fair value recorded as “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income. The following table displays our investments in trading securities.

	As of	
	June 30, 2020	December 31, 2019
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	**$ 7,053**	$ 3,424
Other agency[1]	**3,122**	4,490
Private-label and other mortgage securities	**459**	629
Total mortgage-related securities (includes $829 million and $896 million, respectively, related to consolidated trusts)	**10,634**	8,543
Non-mortgage-related securities:		
U.S. Treasury securities	**96,037**	39,501
Other securities	**73**	79
Total non-mortgage-related securities	**96,110**	39,580
Total trading securities	**$ 106,744**	$ 48,123

(1) Consists of Freddie Mac and Ginnie Mae mortgage-related securities.

The following table displays information about our net trading gains.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Net trading gains	**$ 135**	$ 183	**$ 782**	$ 275
Net trading gains recognized in the period related to securities still held at period end	**70**	147	**525**	227

Available-for-Sale Securities

We record AFS securities at fair value with unrealized gains and losses, recorded net of tax, as a component of “Other comprehensive income (loss)” and we recognize realized gains and losses from the sale of AFS securities in “Investment gains (losses), net” in our condensed consolidated statements of operations and comprehensive income. We define the amortized cost basis of our AFS securities as unpaid principal balance, net of unamortized premiums and discounts, and other cost basis adjustments. Pursuant to the CECL standard, we record an allowance for credit losses for AFS securities that reflects the impairment for credit losses, which are limited to the amount that fair value is less than the amortized cost. Impairment due to non-credit losses are recorded as unrealized losses within other comprehensive income.

The following tables display the amortized cost, allowance for credit losses, gross unrealized gains and losses in accumulated other comprehensive income (loss) ("AOCI"), and fair value by major security type for AFS securities.

	As of June 30, 2020				
	Total Amortized Cost(1)	Allowance for Credit Losses	Gross Unrealized Gains in AOCI	Gross Unrealized Losses in AOCI	Total Fair Value(1)
	(Dollars in millions)				
Fannie Mae	$ 1,296	$ —	$ 112	$ (14)	$ 1,394
Other agency(2)	161	—	19	—	180
Alt-A and subprime private-label securities	4	—	3	—	7
Mortgage revenue bonds	272	(3)	9	—	278
Other mortgage-related securities	257	—	4	—	261
Total	$ 1,990	$ (3)	$ 147	$ (14)	$ 2,120

	As of December 31, 2019			
	Total Amortized Cost(1)(3)	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value(1)
	(Dollars in millions)			
Fannie Mae	$ 1,445	$ 85	$ (10)	$ 1,520
Other agency(2)	183	15	—	198
Alt-A and subprime private-label securities	34	23	—	57
Mortgage revenue bonds	309	9	(3)	315
Other mortgage-related securities	310	5	(1)	314
Total	$ 2,281	$ 137	$ (14)	$ 2,404

(1) We exclude from amortized cost and fair value accrued interest of $8 million and $10 million as of June 30, 2020 and December 31, 2019, respectively, which we record in "Other assets" in our condensed consolidated balance sheets.

(2) Other agency securities consist of securities issued by Freddie Mac and Ginnie Mae.

(3) Prior to our adoption of the CECL standard, total amortized cost represented the unpaid principal balance, unamortized premiums, discounts and other cost basis adjustments, as well as temporary impairments recognized in "Investment gains, net" in our consolidated statements of operations and comprehensive income.

Fannie Mae and Other Agency Securities

Our Fannie Mae and other agency AFS securities consist of securities issued by us, Freddie Mac, or Ginnie Mae. The principal and interest on these securities are guaranteed by the issuing agency. We believe that the guaranty provided by the issuing agency, the support provided to the agencies by the U.S. government, the importance of the agencies to the liquidity and stability in the secondary mortgage market, and the long history of zero credit losses on agency mortgage-related securities are all indicators that there are not currently credit losses on these securities, even if the security is in an unrealized loss position. In addition, we generally hold these securities that are in an unrealized loss position to recovery. As a result, unless we intend to sell the security, we do not recognize an allowance for credit losses on agency mortgage-related securities.

Non-Agency Mortgage-Related Securities

As of June 30, 2020, substantially all of our non-agency mortgage-related securities were in an unrealized gain position. As a result, we have not recognized an allowance for credit losses on these securities.

The following tables display additional information regarding gross unrealized losses and fair value by major security type for AFS securities in an unrealized loss position, excluding allowance for credit losses.

	As of June 30, 2020			
	Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses in AOCI	Fair Value	Gross Unrealized Losses in AOCI	Fair Value
	(Dollars in millions)			
Fannie Mae	$ (2)	$ 74	$ (12)	$ 92
Mortgage revenue bonds	—	—	—	—
Other mortgage-related securities	—	—	—	—
Total	$ (2)	$ 74	$ (12)	$ 92

	As of December 31, 2019			
	Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Fannie Mae	$ —	$ —	$ (10)	$ 337
Mortgage revenue bonds	—	—	(3)	3
Other mortgage-related securities	(1)	130	—	—
Total	$ (1)	$ 130	$ (13)	$ 340

The following table displays the gross realized gains and proceeds on sales of AFS securities.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	**2020**	2019
	(Dollars in millions)			
Gross realized gains	**$ 9**	$ 110	**$ 30**	$ 171
Total proceeds (excludes initial sale of securities from new portfolio securitizations)	**71**	245	**121**	376

The following tables display net unrealized gains on AFS securities and other amounts accumulated within our accumulated other comprehensive income, net of tax.

	As of June 30, 2020
	(Dollars in millions)
Net unrealized gains on AFS securities for which we have not recorded an allowance for credit losses	$ 104
Other	29
Accumulated other comprehensive income	$ 133

	As of December 31, 2019
	(Dollars in millions)
Net unrealized gains on AFS securities for which we have not recorded OTTI	$ 97
Other	34
Accumulated other comprehensive income	$ 131

Prior to our adoption of the CECL standard on January 1, 2020, we evaluated AFS securities for other-than-temporary impairment. The balance of the unrealized credit-loss component of AFS securities held by us and recognized in our consolidated statements of operations and comprehensive income was $36 million as of December 31, 2019.

Maturity Information

The following table displays the amortized cost and fair value of our AFS securities by major security type and remaining contractual maturity, assuming no principal prepayments. The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to prepay their obligations at any time.

	As of June 30, 2020									
			One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Total Carrying Amount(1)	Total Fair Value	Net Carrying Amount(1)	Fair Value	Net Carrying Amount(1)	Fair Value	Net Carrying Amount(1)	Fair Value	Net Carrying Amount(1)	Fair Value
	(Dollars in millions)									
Fannie Mae	$ 1,296	$ 1,394	$ —	$ —	$ 12	$ 13	$ 93	$ 105	$ 1,191	$ 1,276
Other agency	161	180	—	—	14	15	22	24	125	141
Alt-A and subprime private-label securities	4	7	—	—	—	—	3	3	1	4
Mortgage revenue bonds	269	278	2	2	31	33	24	25	212	218
Other mortgage-related securities	257	261	—	—	—	—	21	23	236	238
Total	$ 1,987	$ 2,120	$ 2	$ 2	$ 57	$ 61	$ 163	$ 180	$ 1,765	$ 1,877

(1) Net carrying amount consists of book value, net of allowance for credit losses on AFS debt securities.

6. Financial Guarantees

We recognize a guaranty obligation for our obligation to stand ready to perform on our guarantees to unconsolidated trusts and other guaranty arrangements. These off-balance sheet guarantees expose us to credit losses primarily relating to the unpaid principal balance of our unconsolidated Fannie Mae MBS and other financial guarantees. The maximum remaining contractual term of our guarantees is 32 years; however, the actual term of each guaranty may be significantly less than the contractual term based on the prepayment characteristics of the related mortgage loans. With our adoption of the CECL standard on January 1, 2020, we measure our guaranty reserve for estimated credit losses for off-balance sheet exposures over the contractual period for which they are exposed to the credit risk, unless that obligation is unconditionally cancellable by the issuer.

As the guarantor of structured securities backed in whole or in part by Freddie Mac-issued securities, we extend our guaranty to the underlying Freddie Mac securities in our resecuritization trusts. However, Freddie Mac continues to guarantee the payment of principal and interest on the underlying Freddie Mac securities that we have resecuritized. We do not charge an incremental guaranty fee to include Freddie Mac securities in the structured securities that we issue. When we began issuing UMBS in June 2019, we entered into an indemnification agreement under which Freddie Mac agreed to indemnify us for losses caused by its failure to meet its payment or other specified obligations under the trust agreements pursuant to which the underlying resecuritized securities were issued. As a result, and due to the funding commitment available to Freddie Mac through its senior preferred stock purchase agreement with Treasury, we have concluded that the associated credit risk is negligible. As such, we exclude from the following table Freddie Mac securities backing unconsolidated Fannie Mae-issued structured securities of approximately $101.4 billion and $50.1 billion as of June 30, 2020 and December 31, 2019, respectively.

The following table displays our off-balance sheet maximum exposure, guaranty obligation recognized in our condensed consolidated balance sheets and the potential maximum recovery from third parties through available credit enhancements and recourse related to our financial guarantees.

	As of					
	June 30, 2020			December 31, 2019		
	Maximum Exposure	Guaranty Obligation	Maximum Recovery(1)	Maximum Exposure	Guaranty Obligation	Maximum Recovery(1)
	(Dollars in millions)					
Unconsolidated Fannie Mae MBS	**$ 5,167**	**$ 18**	**$ 4,939**	$ 5,801	$ 26	$ 5,545
Other guaranty arrangements(2)	**12,163**	**115**	**2,455**	12,670	128	2,553
Total	**$ 17,330**	**$ 133**	**$ 7,394**	$ 18,471	$ 154	$ 8,098

(1) Recoverability of such credit enhancements and recourse is subject to, among other factors, our mortgage insurers' and financial guarantors' ability to meet their obligations to us. For information on our mortgage insurers, see "Note 10, Concentrations of Credit Risk."

(2) Primarily consists of credit enhancements and long-term standby commitments.

7. Short-Term and Long-Term Debt

Short-Term Debt

The following table displays our outstanding short-term debt (debt with an original contractual maturity of one year or less) and weighted-average interest rates of this debt.

	As of			
	June 30, 2020		December 31, 2019	
	Outstanding	Weighted-Average Interest Rate[1]	Outstanding	Weighted-Average Interest Rate[1]
	(Dollars in millions)			
Federal funds purchased and securities sold under agreements to repurchase[2]	**$ —**	**— %**	$ 478	1.67 %
Short-term debt of Fannie Mae	**42,250**	**0.28**	26,662	1.56

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

(2) Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day, reported as "Other liabilities" in our condensed consolidated balance sheets.

Intraday Lines of Credit

We use secured intraday funding lines of credit provided by large financial institutions. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As these lines of credit are uncommitted intraday loan facilities, we may be unable to draw on them if and when needed. The lines of credit under these facilities was up to $20.0 billion as of June 30, 2020 and $15.0 billion as of December 31, 2019.

Long-Term Debt

Long-term debt represents debt with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt.

	As of					
	June 30, 2020			December 31, 2019		
	Maturities	Outstanding	Weighted-Average Interest Rate[1]	Maturities	Outstanding	Weighted-Average Interest Rate[1]
	(Dollars in millions)					
Senior fixed:						
Benchmark notes and bonds	2020 - 2030	**$ 91,587**	**2.53 %**	2020 - 2030	$ 86,114	2.66 %
Medium-term notes[2]	2020 - 2027	**19,263**	**1.26**	2020 - 2026	32,590	1.57
Other[3]	2020 - 2038	**3,736**	**6.10**	2020 - 2038	5,254	5.01
Total senior fixed		**114,586**	**2.44**		123,958	2.47
Senior floating:						
Medium-term notes[2]	2020 - 2022	**100,556**	**0.34**	2020 - 2021	9,774	1.66
Connecticut Avenue Securities[4]	2023 - 2031	**17,789**	**4.31**	2023 - 2031	21,424	5.61
Other[5]	2037	**433**	**5.09**	2020 - 2037	398	6.27
Total senior floating		**118,778**	**0.95**		31,596	4.40
Secured borrowings[6]	2021 - 2022	**23**	**2.80**	2021 - 2022	31	2.31
Total long-term debt of Fannie Mae[7]		**233,387**	**1.68**		155,585	2.86
Debt of consolidated trusts	2020 - 2059	**3,444,338**	**2.34**	2020 - 2059	3,285,139	2.78
Total long-term debt		**$ 3,677,725**	**2.30 %**		$ 3,440,724	2.78 %

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

(2) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(3) Includes other long-term debt with an original contractual maturity of greater than 10 years and foreign exchange bonds.

(4) Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of single-family mortgage loans to the investors in these securities, a portion of which is reported at fair value. Represents CAS issued prior to November 2018. See "Note 2, Consolidations and Transfers of Financial Assets" in our 2019 Form 10-K for more information about our CAS structures issued beginning November 2018.

(5) Consists of structured debt instruments that are reported at fair value.

(6) Represents our remaining liability resulting from the transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale under the accounting guidance for the transfer of financial instruments.

(7) Includes unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $430 million and $2 million as of June 30, 2020 and December 31, 2019, respectively.

8. Derivative Instruments

Derivative instruments are an integral part of our strategy in managing interest-rate risk. Derivative instruments may be privately-negotiated, bilateral contracts, or they may be listed and traded on an exchange. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter ("OTC") derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions. We typically do not settle the notional amount of our risk management derivatives; rather, notional amounts provide the basis for calculating actual payments or settlement amounts. The derivative contracts we use for interest-rate risk management purposes consist primarily of interest-rate swaps and interest-rate options. See "Note 8, Derivative Instruments" in our 2019 Form 10-K for additional information on interest-rate risk management.

We account for certain forms of credit risk transfer transactions as derivatives. In our credit risk transfer transactions, a portion of the credit risk associated with losses on a reference pool of mortgage loans is transferred to a third party. We enter into derivative transactions that are associated with some of our credit risk transfer transactions, whereby we manage investment risk to guarantee that certain unconsolidated VIEs have sufficient cash flows to pay their contractual obligations.

We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the criteria of a derivative. We typically settle the notional amount of our mortgage commitments that are accounted for as derivatives.

We recognize all derivatives as either assets or liabilities in our condensed consolidated balance sheets at their fair value on a trade date basis. Fair value amounts, which are (1) netted to the extent a legal right of offset exists and is enforceable by law at the counterparty level and (2) inclusive of the right or obligation associated with the cash collateral posted or received, are recorded in "Other assets" or "Other liabilities" in our condensed consolidated balance sheets. See "Note 12, Fair Value" for additional information on derivatives recorded at fair value. We present cash flows from derivatives as operating activities in our condensed consolidated statements of cash flows.

Notional and Fair Value Position of our Derivatives

The following table displays the notional amount and estimated fair value of our asset and liability derivative instruments.

	As of June 30, 2020				As of December 31, 2019			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	(Dollars in millions)							
Risk management derivatives:								
Swaps:								
Pay-fixed	**$ 98,953**	**$ —**	**$ 28,553**	**$ (1,747)**	$ 41,052	$ —	$ 29,178	$ (970)
Receive-fixed	**131,314**	**1,143**	**4,851**	**(3)**	73,579	816	26,382	(62)
Basis	**250**	**222**	**—**	**—**	273	149	—	—
Foreign currency	**215**	**32**	**217**	**(91)**	229	39	232	(65)
Swaptions:								
Pay-fixed	**4,600**	**6**	**5,875**	**(340)**	4,600	18	6,375	(219)
Receive-fixed	**6,625**	**648**	**350**	**(134)**	2,875	106	4,600	(232)
Futures[1]	**15,982**	**—**	**—**	**—**	20,507	—	—	—
Total gross risk management derivatives	**257,939**	**2,051**	**39,846**	**(2,315)**	143,115	1,128	66,767	(1,548)
Accrued interest receivable (payable)	**—**	**109**	**—**	**(193)**	—	226	—	(250)
Netting adjustment[2]	**—**	**(2,108)**	**—**	**2,396**	—	(1,288)	—	1,694
Total net risk management derivatives	**$257,939**	**$ 52**	**$ 39,846**	**$ (112)**	$143,115	$ 66	$ 66,767	$ (104)
Mortgage commitment derivatives:								
Mortgage commitments to purchase whole loans	**$ 41,032**	**$ 175**	**$ 1,141**	**$ (1)**	$ 7,115	$ 15	$ 1,787	$ (1)
Forward contracts to purchase mortgage-related securities	**106,225**	**571**	**13,080**	**(21)**	55,531	137	9,560	(28)
Forward contracts to sell mortgage-related securities	**12,131**	**21**	**212,592**	**(1,202)**	9,282	13	109,066	(277)
Total mortgage commitment derivatives	**159,388**	**767**	**226,813**	**(1,224)**	71,928	165	120,413	(306)
Credit enhancement derivatives	**24,334**	**85**	**11,159**	**(44)**	28,432	40	9,486	(25)
Derivatives at fair value	**$441,661**	**$ 904**	**$277,818**	**$ (1,380)**	$243,475	$ 271	$196,666	$ (435)

(1) Futures have no ascribable fair value because the positions are settled daily.

(2) The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received. Cash collateral posted was $1.2 billion and $1.0 billion as of June 30, 2020 and December 31, 2019, respectively. Cash collateral received was $906 million and $635 million as of June 30, 2020 and December 31, 2019, respectively.

We record all derivative gains and losses, including accrued interest, in “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income. The following table displays, by type of derivative instrument, the fair value gains and losses, net on our derivatives.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Risk management derivatives:				
Swaps:				
Pay-fixed	**$ (94)**	$ (2,164)	**$ (4,123)**	$ (3,499)
Receive-fixed	**191**	1,884	**3,534**	3,165
Basis	**17**	27	**73**	51
Foreign currency	**4**	(17)	**(34)**	2
Swaptions:				
Pay-fixed	**(13)**	(143)	**(161)**	(320)
Receive-fixed	**25**	93	**657**	100
Futures	**(4)**	195	**(75)**	254
Net contractual interest expense on interest-rate swaps	**(64)**	(242)	**(170)**	(508)
Total risk management derivatives fair value gains (losses), net	**62**	(367)	**(299)**	(755)
Mortgage commitment derivatives fair value losses, net	**(662)**	(469)	**(1,655)**	(769)
Credit enhancement derivatives fair value gains (losses), net	**31**	(17)	**20**	(24)
Total derivatives fair value losses, net	**$ (569)**	$ (853)	**$ (1,934)**	$ (1,548)

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest-rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. We manage our derivative counterparty credit exposure relating to our risk management derivative transactions mainly through enforceable master netting arrangements, which allow us to net derivative assets and liabilities with the same counterparty or clearing organization and clearing member. For our OTC derivative transactions, we require counterparties to post collateral, which may include cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

See “Note 11, Netting Arrangements” for information on our rights to offset assets and liabilities as of June 30, 2020 and December 31, 2019.

9. Segment Reporting

We have two reportable business segments, which are based on the type of business activities each perform: Single-Family and Multifamily. Results of our two business segments are intended to reflect each segment as if it were a stand-alone business. The sum of the results for our two business segments equals our condensed consolidated results of operations.

Segment Allocations and Results

The majority of our revenues and expenses are directly associated with each respective business segment and are included in determining its operating results. Those revenues and expenses that are not directly attributable to a particular business segment are allocated based on the size of each segment's guaranty book of business. The substantial majority of the gains and losses associated with our risk management derivatives are allocated to our Single-Family business segment.

The following tables display our segment results.

	For the Three Months Ended June 30,					
	2020			2019		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Net interest income[1]	**$ 4,939**	**$ 838**	**$ 5,777**	$ 4,419	$ 808	$ 5,227
Fee and other income[2]	**71**	**19**	**90**	88	25	113
Net revenues	**5,010**	**857**	**5,867**	4,507	833	5,340
Investment gains, net[3]	**96**	**53**	**149**	417	44	461
Fair value gains (losses), net[4]	**(1,030)**	**12**	**(1,018)**	(758)	4	(754)
Administrative expenses	**(625)**	**(129)**	**(754)**	(634)	(110)	(744)
Credit-related income (expense)[5]						
Benefit (provision) for credit losses	**219**	**(231)**	**(12)**	1,252	(27)	1,225
Foreclosed property expense	**(3)**	**(7)**	**(10)**	(126)	(2)	(128)
Total credit-related income (expense)	**216**	**(238)**	**(22)**	1,126	(29)	1,097
TCCA fees[6]	**(660)**	**—**	**(660)**	(600)	—	(600)
Credit enhancement expense[7]	**(307)**	**(53)**	**(360)**	(229)	(47)	(276)
Change in expected credit enhancement recoveries[8]	**208**	**65**	**273**	—	—	—
Other expenses, net	**(252)**	**(9)**	**(261)**	(189)	(14)	(203)
Income before federal income taxes	**2,656**	**558**	**3,214**	3,640	681	4,321
Provision for federal income taxes	**(556)**	**(113)**	**(669)**	(769)	(120)	(889)
Net income	**$ 2,100**	**$ 445**	**$ 2,545**	$ 2,871	$ 561	$ 3,432

	For the Six Months Ended June 30,					
	2020			2019		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Net interest income[1]	**$ 9,480**	**$ 1,644**	**$ 11,124**	$ 8,458	$ 1,565	$ 10,023
Fee and other income[2]	**165**	**45**	**210**	194	53	247
Net revenues	**9,645**	**1,689**	**11,334**	8,652	1,618	10,270
Investment gains (losses), net[3]	**(56)**	**47**	**(9)**	511	83	594
Fair value gains (losses), net[4]	**(1,490)**	**196**	**(1,294)**	(1,645)	60	(1,585)
Administrative expenses	**(1,254)**	**(249)**	**(1,503)**	(1,265)	(223)	(1,488)
Credit-related income (expense)[5]						
Benefit (provision) for credit losses	**(1,953)**	**(642)**	**(2,595)**	1,913	(38)	1,875
Foreclosed property income (expense)	**(81)**	**(9)**	**(90)**	(269)	1	(268)
Total credit-related income (expense)	**(2,034)**	**(651)**	**(2,685)**	1,644	(37)	1,607
TCCA fees[6]	**(1,297)**	**—**	**(1,297)**	(1,193)	—	(1,193)
Credit enhancement expense[7]	**(623)**	**(113)**	**(736)**	(399)	(93)	(492)
Change in expected credit enhancement recoveries[8]	**266**	**195**	**461**	—	—	—
Other expenses, net	**(415)**	**(64)**	**(479)**	(356)	(9)	(365)
Income before federal income taxes	**2,742**	**1,050**	**3,792**	5,949	1,399	7,348
Provision for federal income taxes	**(574)**	**(212)**	**(786)**	(1,253)	(263)	(1,516)
Net income	**$ 2,168**	**$ 838**	**$ 3,006**	$ 4,696	$ 1,136	$ 5,832

(1) Net interest income primarily consists of guaranty fees received as compensation for assuming and managing the credit risk on loans underlying Fannie Mae MBS held by third parties for the respective business segment, and the difference between the interest income earned on the respective business segment's mortgage assets in our retained mortgage portfolio and the interest expense associated with the debt funding those assets. Revenues from single-family guaranty fees include revenues generated by the 10 basis point increase in guaranty fees pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

(2) Single-Family fee and other income primarily consists of compensation for engaging in structured transactions and providing other lender services. Multifamily fee and other income consists of fees associated with Multifamily business activities.

(3) Single-Family investment gains and losses primarily consist of gains and losses on the sale of mortgage assets. Multifamily investment gains and losses primarily consists of gains and losses on resecuritization activity.

(4) Single-Family fair value gains and losses primarily consist of fair value gains and losses on risk management and mortgage commitment derivatives, trading securities, fair value option debt, and other financial instruments associated with our single-family guaranty book of business. Multifamily fair value gains and losses primarily consist of fair value gains and losses on MBS commitment derivatives, trading securities and other financial instruments associated with our multifamily guaranty book of business.

(5) Credit-related income or expense is based on the guaranty book of business of the respective business segment and consists of the applicable segment's benefit or provision for credit losses and foreclosed property income or expense on loans underlying the segment's guaranty book of business. The presentation of our credit-related income or expense for the three and six months ended June 30, 2019 represents amounts recognized prior to our transition to the lifetime loss model prescribed by the CECL standard.

(6) Consists of the portion of our single-family guaranty fees that is remitted to Treasury pursuant to the TCCA.

(7) Single-family credit enhancement expense consists of costs associated with our freestanding credit enhancements, which include primarily costs associated with our CIRT, CAS and EPMI programs. Multifamily credit enhancement expense primarily consists of costs associated with our MCIRT and MCAS programs as well as amortization expense for certain lender risk-sharing programs. Excludes CAS transactions accounted for as debt instruments and credit risk transfer programs accounted for as derivative instruments.

(8) Consists of change in benefits recognized from our freestanding credit enhancements, primarily from our CAS and CIRT programs as well as certain lender risk-sharing arrangements, including our multifamily DUS program. See "Note 1, Summary of Significant Accounting Policies" for more information about our change in presentation.

10. Concentrations of Credit Risk

Risk Characteristics of our Guaranty Book of Business

One of the measures by which we gauge our performance risk is the delinquency status of the mortgage loans in our guaranty book of business.

For single-family and multifamily loans, we use this information, in conjunction with housing market and economic conditions, to structure our pricing and our eligibility and underwriting criteria to reflect the current risk of loans with higher-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

We report the delinquency status of our single-family and multifamily guaranty book of business below. We report loans receiving COVID-19-related payment forbearance as delinquent according to the contractual terms of the loans.

Single-Family Credit Risk Characteristics

For single-family loans, management monitors the serious delinquency rate, which is the percentage of single-family loans, based on the number of loans that are 90 days or more past due or in the foreclosure process, and loans that have higher risk characteristics, such as high mark-to-market LTV ratios.

The following tables display the delinquency status and serious delinquency rates for specified loan categories of our single-family conventional guaranty book of business.

	As of					
	June 30, 2020			December 31, 2019		
	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent(1)	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent(1)
Percentage of single-family conventional guaranty book of business based on UPB	**1.45 %**	**1.85 %**	**3.04 %**	1.07 %	0.29 %	0.59 %
Percentage of single-family conventional loans based on loan count	**1.47**	**1.60**	**2.65**	1.27	0.35	0.66

	As of			
	June 30, 2020		December 31, 2019	
	Percentage of Single-Family Conventional Guaranty Book of Business Based on UPB	Seriously Delinquent Rate(1)	Percentage of Single-Family Conventional Guaranty Book of Business Based on UPB	Seriously Delinquent Rate(1)
Estimated mark-to-market LTV ratio:				
Greater than 100%	*	**18.12 %**	*	10.14 %
Geographical distribution:				
California	**19 %**	**2.54**	19 %	0.32
Florida	**6**	**3.98**	6	0.84
Illinois	**4**	**2.71**	4	0.91
New Jersey	**3**	**4.81**	3	1.13
New York	**5**	**4.96**	5	1.18
All other states	**63**	**2.30**	63	0.64
Product distribution:				
Alt-A	**1**	**8.07**	2	2.95
Vintages:				
2004 and prior	**2**	**5.00**	2	2.48
2005-2008	**3**	**8.37**	4	4.11
2009-2020	**95**	**2.21**	94	0.35

* Represents less than 0.5% of single-family conventional guaranty book of business.

(1) Based on loan count, consists of single-family conventional loans that were 90 days or more past due or in the foreclosure process as of June 30, 2020 or December 31, 2019.

Multifamily Credit Risk Characteristics

For multifamily loans, management monitors the serious delinquency rate, which is the percentage of multifamily loans, based on unpaid principal balance, that are 60 days or more past due, and other loans that have higher risk characteristics, to assess the overall credit quality of our multifamily book of business. Higher risk characteristics include, but are not limited to, current DSCR below 1.0 and original LTV ratios greater than 80%. We stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan.

The following tables display the delinquency status and serious delinquency rates for specified loan categories of our multifamily guaranty book of business.

	As of			
	June 30, 2020[1]		December 31, 2019[1]	
	30 Days Delinquent	Seriously Delinquent[2]	30 Days Delinquent	Seriously Delinquent[2]
Percentage of multifamily guaranty book of business	**0.32%**	**1.00 %**	0.02 %	0.04 %

	As of			
	June 30, 2020		December 31, 2019	
	Percentage of Multifamily Guaranty Book of Business[1]	Percentage Seriously Delinquent[2][3]	Percentage of Multifamily Guaranty Book of Business[1]	Percentage Seriously Delinquent[2][3]
Original LTV ratio:				
Greater than 80%	**1 %**	**0.39 %**	1 %	— %
Less than or equal to 80%	**99**	**1.01**	99	0.04
Current DSCR below 1.0[4]	**2**	**22.91**	2	0.48

(1) Calculated based on the aggregate unpaid principal balance of multifamily loans for each category divided by the aggregate unpaid principal balance of loans in our multifamily guaranty book of business.

(2) Consists of multifamily loans that were 60 days or more past due as of the dates indicated.

(3) Calculated based on the unpaid principal balance of multifamily loans that were seriously delinquent divided by the aggregate unpaid principal balance of multifamily loans for each category included in our multifamily guaranty book of business.

(4) Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results of our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months but in some cases may be longer. As a result, the financial statements we have received from borrowers to date have largely not reflected the impact of COVID-19. For certain properties, we do not receive updated financial information.

Other Concentrations

Mortgage Insurers. Mortgage insurance “risk in force” refers to our maximum potential loss recovery under the applicable mortgage insurance policies in force and is generally based on the loan-level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

The following table displays our total mortgage insurance risk in force by primary and pool insurance, as well as the total risk-in-force mortgage insurance coverage as a percentage of the single-family conventional guaranty book of business.

	As of			
	June 30, 2020		December 31, 2019	
	Risk in Force	Percentage of Single-Family Guaranty Book of Business	Risk in Force	Percentage of Single-Family Guaranty Book of Business
	(Dollars in millions)			
Mortgage insurance risk in force:				
Primary mortgage insurance	**$ 165,871**		$ 162,855	
Pool mortgage insurance	**301**		339	
Total mortgage insurance risk in force	**$ 166,172**	**5%**	$ 163,194	6%

Mortgage insurance does not protect us from all losses on covered loans. For example, mortgage insurance does not cover us from default risk for properties that suffered damages that were not covered by the hazard insurance we require. Specifically, a property damaged by a flood that was outside a Federal Emergency Management Agency ("FEMA")-identified Special Flood Hazard Area, where we require coverage, or a property damaged by an earthquake are the most likely scenarios where property damage may result in a default not covered by hazard insurance.

The table below displays our mortgage insurer counterparties that provided approximately 10% or more of the risk-in-force mortgage insurance coverage on mortgage loans in our single-family conventional guaranty book of business.

	Percentage of Risk-in-Force Coverage by Mortgage Insurer	
	As of	
	June 30, 2020	December 31, 2019
Counterparty:[(1)]		
Arch Capital Group Ltd.	**22 %**	23 %
Radian Guaranty, Inc.	**20**	20
Mortgage Guaranty Insurance Corp.	**18**	18
Genworth Mortgage Insurance Corp.[(2)]	**16**	15
Essent Guaranty, Inc.	**14**	14
Others	**10**	10
Total	**100 %**	100 %

(1) Insurance coverage amounts provided for each counterparty may include coverage provided by affiliates and subsidiaries of the counterparty.

(2) Genworth Financial, Inc., the ultimate parent company of Genworth Mortgage Insurance Corp., is in the process of being acquired by China Oceanwide Holdings Group Co., Ltd. Upon acquisition, Genworth Mortgage Insurance Corp. will continue to be subject to our ongoing review of financial and operational eligibility requirements.

Three of our mortgage insurer counterparties that are currently not approved to write new business are in run-off: PMI Mortgage Insurance Co. ("PMI"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC"). Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. These three mortgage insurers provided a combined $2.9 billion, or 2%, of the risk-in-force mortgage insurance coverage of our single-family conventional guaranty book of business as of June 30, 2020.

PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 76.5% of claims under its mortgage insurance policies in cash and is deferring the remaining 23.5%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations as well as interest on those obligations; however, RMIC remains in run-off.

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. There is risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. On at least a quarterly basis, we assess our mortgage insurer counterparties' respective abilities to fulfill their obligations to us. Our assessment includes financial reviews and analyses of the insurers' portfolios and capital adequacy. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, it could increase our loss reserves, which could adversely affect our results of operations, liquidity, financial condition and net worth.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations, we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that expected credit losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could increase our loss reserves. As of June 30, 2020 and December 31, 2019, our estimated benefit from mortgage insurance, which is based on estimated credit losses as of period end, reduced our loss reserves by $2.0 billion and $410 million, respectively.

As of June 30, 2020 and December 31, 2019, we had outstanding receivables of $578 million and $654 million, respectively, recorded in "Other assets" in our condensed consolidated balance sheets related to amounts claimed on insured, defaulted loans excluding government-insured loans. As of June 30, 2020 and December 31, 2019, we assessed these outstanding receivables for collectability, and established a valuation allowance of $500 million and $541 million, respectively, which reduced our claim receivable to the amount considered probable of collection.

Mortgage Servicers and Sellers. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our mortgage servicers and sellers may also be obligated to repurchase loans or foreclosed properties, reimburse us for losses or provide other remedies under certain circumstances, such as if it is determined that the mortgage loan did not meet our underwriting or eligibility requirements, if certain loan representations and warranties are violated or if mortgage insurers rescind coverage. Our representation and warranty framework does not require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief.

Our business with mortgage servicers is concentrated. The table below displays the percentage of our single-family guaranty book of business serviced by our top five depository single-family mortgage servicers and top five non-depository single-family mortgage servicers (i.e., servicers that are not insured depository institutions), and identifies one servicer that serviced more than 10% of our single-family guaranty book of business based on unpaid principal balance.

	Percentage of Single-Family Guaranty Book of Business	
	As of	
	June 30, 2020	**December 31, 2019**
Wells Fargo Bank, N.A. (together with its affiliates)	**16 %**	17 %
Remaining top five depository servicers	**13**	15
Top five non-depository servicers	**27**	27
Total	**56 %**	59 %

Compared with depository financial institutions, our non-depository servicers pose additional risks because they may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight as depository financial institutions.

The table below displays the percentage of our multifamily guaranty book of business serviced by our top five multifamily mortgage servicers, and identifies two servicers that serviced 10% or more of our multifamily guaranty book of business based on unpaid principal balance.

	Percentage of Multifamily Guaranty Book of Business	
	As of	
	June 30, 2020	**December 31, 2019**
Wells Fargo Bank, N.A. (together with its affiliates)	**13 %**	13 %
Walker & Dunlop, Inc.	**12**	12
Remaining top five servicers	**23**	23
Total	**48 %**	48 %

If a significant mortgage servicer or seller counterparty, or a number of mortgage servicers or sellers, fails to meet their obligations to us, it could adversely affect our results of operations and financial condition. We mitigate these risks in several ways, including:

- establishing minimum standards and financial requirements for our servicers;
- monitoring financial and portfolio performance as compared with peers and internal benchmarks; and
- for our largest mortgage servicers, conducting periodic on-site and financial reviews to confirm compliance with servicing guidelines and servicing performance expectations.

We may take one or more of the following actions to mitigate our credit exposure to mortgage servicers that present a higher risk:

- require a guaranty of obligations by higher-rated entities;
- transfer exposure to third parties;
- require collateral;
- establish more stringent financial requirements;
- work with underperforming major servicers to improve operational processes; and
- suspend or terminate the selling and servicing relationship if deemed necessary.

Derivative Counterparties. For information on credit risk associated with our derivative transactions and repurchase agreements see “Note 8, Derivative Instruments” and “Note 11, Netting Arrangements.”

11. Netting Arrangements

We use master netting arrangements, which allow us to offset certain financial instruments and collateral with the same counterparty, to minimize counterparty credit exposure. The tables below display information related to derivatives, securities purchased under agreements to resell or similar arrangements, and securities sold under agreements to repurchase or similar arrangements, which are subject to an enforceable master netting arrangement or similar agreement that are either offset or not offset in our condensed consolidated balance sheets.

	As of June 30, 2020					
				Amounts Not Offset in our Condensed Consolidated Balance Sheets		
	Gross Amount	Gross Amount Offset[1]	Net Amount Presented in our Condensed Consolidated Balance Sheets	Financial Instruments[2]	Collateral[3]	Net Amount
	(Dollars in millions)					
Assets:						
OTC risk management derivatives	$ 2,160	$ (2,156)	$ 4	$ —	$ —	$ 4
Cleared risk management derivatives	—	48	48	—	—	48
Mortgage commitment derivatives	767	—	767	(268)	(28)	471
Total derivative assets	2,927	(2,108)	819 [4]	(268)	(28)	523
Securities purchased under agreements to resell or similar arrangements[5]	38,725	—	38,725	—	(38,725)	—
Total assets	$41,652	$ (2,108)	$ 39,544	$ (268)	$ (38,753)	$ 523
Liabilities:						
OTC risk management derivatives	$ (2,508)	$ 2,400	$ (108)	$ —	$ —	$ (108)
Cleared risk management derivatives	—	(4)	(4)	—	4	—
Mortgage commitment derivatives	(1,224)	—	(1,224)	268	934	(22)
Total derivative liabilities	(3,732)	2,396	(1,336) [4]	268	938	(130)
Total liabilities	$ (3,732)	$ 2,396	$ (1,336)	$ 268	$ 938	$ (130)

	As of December 31, 2019					
				Amounts Not Offset in our Condensed Consolidated Balance Sheets		
	Gross Amount	Gross Amount Offset[1]	Net Amount Presented in our Condensed Consolidated Balance Sheets	Financial Instruments[2]	Collateral[3]	Net Amount
	(Dollars in millions)					
Assets:						
OTC risk management derivatives	$ 1,354	$ (1,334)	$ 20	$ —	$ —	$ 20
Cleared risk management derivatives	—	46	46	—	—	46
Mortgage commitment derivatives	165	—	165	(101)	(1)	63
Total derivative assets	1,519	(1,288)	231 [4]	(101)	(1)	129
Securities purchased under agreements to resell or similar arrangements[5]	24,928	—	24,928	—	(24,928)	—
Total assets	$26,447	$ (1,288)	$ 25,159	$ (101)	$ (24,929)	$ 129
Liabilities:						
OTC risk management derivatives	$ (1,798)	$ 1,695	$ (103)	$ —	$ —	$ (103)
Cleared risk management derivatives	—	(1)	(1)	—	1	—
Mortgage commitment derivatives	(306)	—	(306)	101	181	(24)
Total derivative liabilities	(2,104)	1,694	(410) [4]	101	182	(127)
Securities sold under agreements to repurchase or similar arrangements	(478)	—	(478)	—	475	(3)
Total liabilities	$ (2,582)	$ 1,694	$ (888)	$ 101	$ 657	$ (130)

(1) Represents the effect of the right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received and accrued interest.

(2) Mortgage commitment derivative amounts reflect where we have recognized both an asset and a liability with the same counterparty under an enforceable master netting arrangement but we have not elected to offset the related amounts in our condensed consolidated balance sheets.

(3) Represents collateral received that has not been recognized and not offset in our condensed consolidated balance sheets as well as collateral posted which has been recognized but not offset in our condensed consolidated balance sheets. Does not include collateral held or posted in excess of our exposure. The fair value of non-cash collateral we pledged which the counterparty was permitted to sell or repledge was $4.9 billion and $2.3 billion as of June 30, 2020 and December 31, 2019, respectively. The fair value of non-cash collateral received was $38.7 billion and $24.7 billion, of which $38.0 billion and $23.8 billion could be sold or repledged as of June 30, 2020 and December 31, 2019, respectively. None of the underlying collateral was sold or repledged as of June 30, 2020 or December 31, 2019.

(4) Excludes derivative assets of $85 million and $40 million as of June 30, 2020 and December 31, 2019, respectively, and derivative liabilities of $44 million and $25 million recognized in our condensed consolidated balance sheets as of June 30, 2020 and December 31, 2019, respectively, that are not subject to enforceable master netting arrangements.

(5) Includes $13.3 billion and $11.4 billion in securities purchased under agreements to resell classified as “Cash and cash equivalents” in our condensed consolidated balance sheets as of June 30, 2020 and December 31, 2019, respectively.

Derivative instruments are recorded at fair value and securities purchased under agreements to resell or similar arrangements are recorded at amortized cost in our condensed consolidated balance sheets. For how we determine our rights to offset the assets and liabilities presented above with the same counterparty, including collateral posted or received, see “Note 14, Netting Arrangements” in our 2019 Form 10-K.

12. Fair Value

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis.

Fair Value Measurement

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value, and sets forth disclosures around fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements of assets and liabilities based on limited observable inputs or observable inputs for similar assets and liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs.

Recurring Changes in Fair Value

The following tables display our assets and liabilities measured in our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option.

	Fair Value Measurements as of June 30, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
			(Dollars in millions)		
Recurring fair value measurements:					
Assets:					
Cash equivalents[2]	$ 7,667	$ —	$ —	$ —	$ 7,667
Trading securities:					
Mortgage-related securities:					
Fannie Mae	—	7,015	38	—	7,053
Other agency	—	3,122	—	—	3,122
Private-label and other mortgage securities	—	361	98	—	459
Non-mortgage-related securities:					
U.S. Treasury securities	96,037	—	—	—	96,037
Other securities	—	73	—	—	73
Total trading securities	96,037	10,571	136	—	106,744
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae	—	948	446	—	1,394
Other agency	—	180	—	—	180
Alt-A and subprime private-label securities	—	5	2	—	7
Mortgage revenue bonds	—	—	278	—	278
Other	—	7	254	—	261
Total available-for-sale securities	—	1,140	980	—	2,120
Mortgage loans	—	6,506	797	—	7,303
Other assets:					
Risk management derivatives:					
Swaps	—	1,277	229	—	1,506
Swaptions	—	654	—	—	654
Netting adjustment	—	—	—	(2,108)	(2,108)
Mortgage commitment derivatives	—	767	—	—	767
Credit enhancement derivatives	—	—	85	—	85
Total other assets	—	2,698	314	(2,108)	904
Total assets at fair value	$ 103,704	$ 20,915	$ 2,227	$ (2,108)	$ 124,738
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior floating	$ —	$ 4,113	$ 433	$ —	$ 4,546
Total of Fannie Mae	—	4,113	433	—	4,546
Of consolidated trusts	—	23,794	89	—	23,883
Total long-term debt	—	27,907	522	—	28,429
Other liabilities:					
Risk management derivatives:					
Swaps	—	2,033	1	—	2,034
Swaptions	—	474	—	—	474
Netting adjustment	—	—	—	(2,396)	(2,396)
Mortgage commitment derivatives	—	1,224	—	—	1,224
Credit enhancement derivatives	—	—	44	—	44
Total other liabilities	—	3,731	45	(2,396)	1,380
Total liabilities at fair value	$ —	$ 31,638	$ 567	$ (2,396)	$ 29,809

	Fair Value Measurements as of December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment(1)	Estimated Fair Value
	(Dollars in millions)				
Recurring fair value measurements:					
Assets:					
Trading securities:					
Mortgage-related securities:					
Fannie Mae	$ —	$ 3,379	$ 45	$ —	$ 3,424
Other agency	—	4,489	1	—	4,490
Private-label and other mortgage securities	—	629	—	—	629
Non-mortgage-related securities:					
U.S. Treasury securities	39,501	—	—	—	39,501
Other securities	—	79	—	—	79
Total trading securities	39,501	8,576	46	—	48,123
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae	—	1,349	171	—	1,520
Other agency	—	198	—	—	198
Alt-A and subprime private-label securities	—	57	—	—	57
Mortgage revenue bonds	—	—	315	—	315
Other	—	8	306	—	314
Total available-for-sale securities	—	1,612	792	—	2,404
Mortgage loans	—	7,137	688	—	7,825
Other assets:					
Risk management derivatives:					
Swaps	—	1,071	159	—	1,230
Swaptions	—	124	—	—	124
Netting adjustment	—	—	—	(1,288)	(1,288)
Mortgage commitment derivatives	—	165	—	—	165
Credit enhancement derivatives	—	—	40	—	40
Total other assets	—	1,360	199	(1,288)	271
Total assets at fair value	$ 39,501	$ 18,685	$ 1,725	$ (1,288)	$ 58,623
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior floating	$ —	$ 5,289	$ 398	$ —	$ 5,687
Total of Fannie Mae	—	5,289	398	—	5,687
Of consolidated trusts	—	21,805	75	—	21,880
Total long-term debt	—	27,094	473	—	27,567
Other liabilities:					
Risk management derivatives:					
Swaps	—	1,346	1	—	1,347
Swaptions	—	440	11	—	451
Netting adjustment	—	—	—	(1,694)	(1,694)
Mortgage commitment derivatives	—	306	—	—	306
Credit enhancement derivatives	—	—	25	—	25
Total other liabilities	—	2,092	37	(1,694)	435
Total liabilities at fair value	$ —	$ 29,186	$ 510	$ (1,694)	$ 28,002

(1) Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received.

(2) Cash equivalents are comprised of U.S. Treasuries that have a maturity at the date of acquisition of three months or less.

The following tables display a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The tables also display gains and losses due to changes in fair value, including realized and unrealized gains and losses, recognized in our condensed consolidated statements of operations and comprehensive income for Level 3 assets and liabilities.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

For the Three Months Ended June 30, 2020

		Total Gains (Losses) (Realized/Unrealized)										
	Balance, March 31, 2020	Included in Net Income	Included in Total OCI Gain/ (Loss)[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3	Transfers into Level 3	Balance, June 30, 2020	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2020[4][5]	Net Unrealized Gains (Losses) Included in OCI Related to Assets and Liabilities Still Held as of June 30, 2020[1]
	(Dollars in millions)											
Trading securities:												
Mortgage-related:												
Fannie Mae	$ 68	$ —	$ —	$ —	$ —	$ —	$ —	$ (34)	$ 4	$ 38	$ —	$ —
Private-label and other mortgage securities	94	7	—	—	—	—	(3)	—	—	98	5	—
Total trading securities	$ 162	$ 7 [5][6]	$ —	$ —	$ —	$ —	$ (3)	$ (34)	$ 4	$ 136	$ 5	$ —
Available-for-sale securities:												
Mortgage-related:												
Fannie Mae	$ 188	$ —	$ (4)	$ —	$ —	$ —	$ (2)	$ —	$ 264	$ 446	$ —	$ (3)
Alt-A and subprime private-label securities	—	—	—	—	—	—	—	—	2	2	—	—
Mortgage revenue bonds	296	—	1	—	—	—	(19)	—	—	278	—	1
Other	284	(3)	—	—	—	—	(27)	—	—	254	—	—
Total available-for-sale securities	$ 768	$ (3) [5][6]	$ (3)	$ —	$ —	$ —	$ (48)	$ —	$ 266	$ 980	$ —	$ (2)
Mortgage loans	$ 638	$ 15 [5][6]	$ —	$ —	$ —	$ —	$ (25)	$ (21)	$ 190	$ 797	$ 12	$ —
Net derivatives	217	49 [5]	—	—	—	—	3	—	—	269	52	—
Long-term debt:												
Of Fannie Mae:												
Senior floating	(432)	(24) [5]	—	—	—	—	23	—	—	(433)	(24)	—
Of consolidated trusts	(83)	(3) [5][6]	—	—	—	—	4	1	(8)	(89)	(2)	—
Total long-term debt	$ (515)	$ (27)	$ —	$ —	$ —	$ —	$ 27	$ 1	$ (8)	$ (522)	$ (26)	$ —

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Six Months Ended June 30, 2020

	Balance, December 31, 2019	Total Gains (Losses) (Realized/Unrealized) Included in Net Income	Total Gains (Losses) (Realized/Unrealized) Included in Total OCI Gain/ (Loss)[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3	Transfers into Level 3	Balance, June 30, 2020	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2020[4][5]	Net Unrealized Gains (Losses) Included in OCI Related to Assets and Liabilities Still Held as of June 30, 2020[1]
	(Dollars in millions)											
Trading securities:												
Mortgage-related:												
Fannie Mae	$ 45	$ (9)	$ —	$ —	$ —	$ —	$ —	$ (45)	$ 47	$ 38	$ (8)	$ —
Other agency	1	—	—	—	—	—	—	(1)	—	—	—	—
Private-label and other mortgage securities	—	7	—	—	—	—	(3)	—	94	98	—	—
Total trading securities	$ 46	$ (2) [5][6]	$ —	$ —	$ —	$ —	$ (3)	$ (46)	$ 141	$ 136	$ (8)	$ —
Available-for-sale securities:												
Mortgage-related:												
Fannie Mae	$ 171	$ —	$ —	$ —	$ —	$ —	$ (3)	$ —	$ 278	$ 446	$ —	$ —
Alt-A and subprime private-label securities	—	—	—	—	—	—	—	—	2	2	—	—
Mortgage revenue bonds	315	(3)	3	74	(74)	—	(37)	—	—	278	—	5
Other	306	(14)	(1)	268	(268)	—	(37)	—	—	254	—	(1)
Total available-for-sale securities	$ 792	$ (17) [6][7]	$ 2	$ 342	$ (342)	$ —	$ (77)	$ —	$ 280	$ 980	$ —	$ 4
Mortgage loans	$ 688	$ (9) [5][6]	$ —	$ —	$ —	$ —	$ (54)	$ (44)	$ 216	$ 797	$ (14)	$ —
Net derivatives	162	90 [5]	—	—	—	—	(1)	18	—	269	96	—
Long-term debt:												
Of Fannie Mae:												
Senior floating	(398)	(58) [5]	—	—	—	—	23	—	—	(433)	(58)	—
Of consolidated trusts	(75)	1 [5][6]	—	—	—	—	7	1	(23)	(89)	2	—
Total long-term debt	$ (473)	$ (57)	$ —	$ —	$ —	$ —	$ 30	$ 1	$ (23)	$ (522)	$ (56)	$ —

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Three Months Ended June 30, 2019

		Total Gains (Losses) (Realized/Unrealized)										
	Balance, March 31, 2019	Included in Net Income	Included in Total OCI Gain/ (Loss)[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3	Transfers into Level 3	Balance, June 30, 2019	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2019[4][5]	Net Unrealized Gains (Losses) Included in OCI Related to Assets and Liabilities Still Held as of June 30, 2019[1]
	(Dollars in millions)											
Trading securities:												
Mortgage-related:												
Fannie Mae	$ 67	$ 1	$ —	$ —	$ (14)	$ —	$ (16)	$ —	$ 36	$ 74	$ 2	$ —
Total trading securities	$ 67	$ 1 (5)(6)	$ —	$ —	$ (14)	$ —	$ (16)	$ —	$ 36	$ 74	$ 2	$ —
Available-for-sale securities:												
Mortgage-related:												
Fannie Mae	$ 199	$ —	$ 2	$ —	$ —	$ —	$ (7)	$ (62)	$ —	$ 132	$ —	$ 3
Alt-A and subprime private-label securities	23	5	(5)	—	(23)	—	—	—	—	—	—	—
Mortgage revenue bonds	425	—	(1)	—	(4)	—	(56)	—	—	364	—	—
Other	337	5	(5)	—	—	—	(9)	(2)	—	326	—	(3)
Total available-for-sale securities	$ 984	$ 10 (6)(7)	$ (9)	$ —	$ (27)	$ —	$ (72)	$ (64)	$ —	$ 822	$ —	$ —
Mortgage loans	$ 934	$ 17 (5)(6)	$ —	$ —	$ (13)	$ —	$ (36)	$ (159)	$ 27	$ 770	$ 14	$ —
Net derivatives	203	20 (5)	—	—	—	—	(31)	(9)	—	183	18	—
Long-term debt:												
Of Fannie Mae:												
Senior floating	(376)	(22) (5)	—	—	—	—	—	—	—	(398)	(22)	—
Of consolidated trusts	(224)	(1) (5)(6)	—	—	—	—	5	120	(2)	(102)	(1)	—
Total long-term debt	$ (600)	$ (23)	$ —	$ —	$ —	$ —	$ 5	$ 120	$ (2)	$ (500)	$ (23)	$ —

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
For the Six Months Ended June 30, 2019

	Balance, December 31, 2018	Total Gains (Losses) (Realized/Unrealized): Included in Net Income	Total Gains (Losses) (Realized/Unrealized): Included in Total OCI Gain/ (Loss)[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3	Transfers into Level 3	Balance, June 30, 2019	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2019[4][5]	Net Unrealized Gains (Losses) Included in OCI Related to Assets and Liabilities Still Held as of June 30, 2019[1]
	(Dollars in millions)											
Trading securities:												
Mortgage-related:												
Fannie Mae	$ 32	$ 3	$ —	$ —	$ (14)	$ —	$ (16)	$ —	$ 69	$ 74	$ 3	$ —
Private-label and other mortgage securities	1	—	—	—	—	—	(1)	—	—	—	—	—
Total trading securities	$ 33	$ 3 [5][6]	$ —	$ —	$ (14)	$ —	$ (17)	$ —	$ 69	$ 74	$ 3	$ —
Available-for-sale securities:												
Mortgage-related:												
Fannie Mae	$ 152	$ —	$ 6	$ —	$ —	$ —	$ (7)	$ (103)	$ 84	$ 132	$ —	$ 5
Alt-A and subprime private-label securities	24	5	(5)	—	(23)	—	(1)	—	—	—	—	—
Mortgage revenue bonds	434	—	(1)	—	(4)	—	(65)	—	—	364	—	(1)
Other	342	12	(10)	—	—	—	(17)	(2)	1	326	—	(7)
Total available-for-sale securities	$ 952	$ 17 [6][7]	$ (10)	$ —	$ (27)	$ —	$ (90)	$ (105)	$ 85	$ 822	$ —	$ (3)
Mortgage loans	$ 937	$ 31 [5][6]	$ —	$ —	$ (13)	$ —	$ (70)	$ (187)	$ 72	$ 770	$ 22	$ —
Net derivatives	194	118 [5]	—	—	—	—	(120)	(9)	—	183	24	—
Long-term debt:												
Of Fannie Mae:												
Senior floating	(351)	(47) [5]	—	—	—	—	—	—	—	(398)	(47)	—
Of consolidated trusts	(201)	(4) [5][6]	—	—	—	—	10	169	(76)	(102)	(2)	—
Total long-term debt	$ (552)	$ (51)	$ —	$ —	$ —	$ —	$ 10	$ 169	$ (76)	$ (500)	$ (49)	$ —

(1) Gains (losses) included in other comprehensive loss are included in "Changes in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustments and taxes" in our condensed consolidated statements of operations and comprehensive income.

(2) Purchases and sales include activity related to the consolidation and deconsolidation of assets of securitization trusts.

(3) Issues and settlements include activity related to the consolidation and deconsolidation of liabilities of securitization trusts.

(4) Amount represents temporary changes in fair value. Amortization, accretion and the impairment of credit losses are not considered unrealized and are not included in this amount.

(5) Gains (losses) are included in "Fair value losses, net" in our condensed consolidated statements of operations and comprehensive income.

(6) Gains (losses) are included in "Net interest income" in our condensed consolidated statements of operations and comprehensive income.

(7) Gains (losses) are included in "Investment gains (losses), net" in our condensed consolidated statements of operations and comprehensive income.

The following tables display valuation techniques and the range and the weighted average of significant unobservable inputs for our Level 3 assets and liabilities measured at fair value on a recurring basis, excluding instruments for which we have elected the fair value option. Changes in these unobservable inputs can result in significantly higher or lower fair value measurements of these assets and liabilities as of the reporting date.

	Fair Value Measurements as of June 30, 2020				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1][2]
			(Dollars in millions)		
Recurring fair value measurements:					
Trading securities:					
Mortgage-related securities:					
Agency[3]	$ 38	Various			
Private-label securities and other mortgage securities	98	Various			
Total trading securities	$ 136				
Available-for-sale securities:					
Mortgage-related securities:					
Agency[3]	$ 388	Consensus			
	58	Various			
Total agency	446				
Alt-A and subprime private-label securities	2	Various			
Mortgage revenue bonds	186	Single Vendor	Spreads (bps)	35.0 - 318.3	92.3
	92	Various			
Total mortgage revenue bonds	278				
Other	220	Discounted Cash Flow	Spreads (bps)	485.0 - 510.0	497.7
	34	Various			
Total other	254				
Total available-for-sale securities	$ 980				
Net derivatives	$ 228	Dealer Mark			
	41	Various			
Total net derivatives	$ 269				

	Fair Value Measurements as of December 31, 2019				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1][2]
			(Dollars in millions)		
Recurring fair value measurements:					
Trading securities:					
Mortgage-related securities:					
Agency[3]	$ 46	Various			
Available-for-sale securities:					
Mortgage-related securities:					
Agency[3]	$ 107	Consensus			
	64	Various			
Total agency	171				
Available-for-sale securities:					
Mortgage-related securities:					
Mortgage revenue bonds	$ 222	Single Vendor	Spreads(bps)	23.0 - 205.1	76.1
	93	Various			
Total mortgage revenue bonds	315				
Other	267	Discounted Cash Flow	Spreads(bps)	300.0	300.0
	39	Various			
Total other	306				
Total available-for-sale securities	$ 792				
Net derivatives	$ 147	Dealer Mark			
	15	Various			
Total net derivatives	$ 162				

(1) Valuation techniques for which no unobservable inputs are disclosed generally reflect the use of third-party pricing services or dealers, and the range of unobservable inputs applied by these sources is not readily available or cannot be reasonably estimated. Where we have disclosed unobservable inputs for consensus and single vendor techniques, those inputs are based on our validations performed at the security level using discounted cash flows.

(2) Unobservable inputs were weighted by the relative fair value of the instruments.

(3) Includes Fannie Mae and Freddie Mac securities.

In our condensed consolidated balance sheets, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate loans for impairment). We had no Level 1 assets or liabilities held as of June 30, 2020 or December 31, 2019 that were measured at fair value on a nonrecurring basis. We held $15 million and $274 million in Level 2 assets as of June 30, 2020 and December 31, 2019, respectively, comprised of mortgage loans held for sale and mortgage loans held for investment that were impaired. We had no Level 2 liabilities that were measured at fair value on a nonrecurring basis as of June 30, 2020 or December 31, 2019.

The following table displays valuation techniques for our Level 3 assets measured at fair value on a nonrecurring basis. The significant unobservable inputs related to these techniques primarily relate to collateral dependent valuations. The related ranges and weighted averages are not meaningful when aggregated as they vary significantly from property to property.

		Fair Value Measurements as of	
	Valuation Techniques	June 30, 2020	December 31, 2019
		(Dollars in millions)	
Nonrecurring fair value measurements:			
Mortgage loans held for sale, at lower of cost or fair value	Consensus	**$ 1,311**	$ 471
	Single Vendor	**720**	605
Total mortgage loans held for sale, at lower of cost or fair value		**2,031**	1,076
Single-family mortgage loans held for investment, at amortized cost	Internal Model	**759**	555
Multifamily mortgage loans held for investment, at amortized cost	Asset Manager Estimate	**—**	24
	Various	**75**	16
Total multifamily mortgage loans held for investment, at amortized cost		**75**	40
Acquired property, net:[1]			
Single-family	Accepted Offers	**105**	101
	Appraisals	**204**	362
	Walk Forwards	**186**	240
	Internal Model	**92**	164
	Various	**35**	51
Total single-family		**622**	918
Multifamily	Various	**24**	9
Total nonrecurring assets at fair value		**$ 3,511**	$ 2,598

[1] The most commonly used techniques in our valuation of acquired property are a proprietary home price model and third-party valuations (both current and walk forward). Based on the number of properties measured as of June 30, 2020, these methodologies comprised approximately 75% of our valuations, while accepted offers comprised approximately 21% of our valuations. Based on the number of properties measured as of December 31, 2019, these methodologies comprised approximately 85% of our valuations, while accepted offers comprised approximately 12% of our valuations.

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. See "Note 15, Fair Value" in our 2019 Form 10-K for information on the valuation control processes and the valuation techniques we use for fair value measurement and disclosure as well as our basis for classifying these measurements as Level 1, Level 2 or Level 3 of the valuation hierarchy in more specific situations. We made no material changes to the valuation control processes or the valuation techniques for the six months ended June 30, 2020.

Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of our financial instruments. The fair value of financial instruments we disclose includes commitments to purchase multifamily and single-family mortgage loans that we do not record in our condensed consolidated balance sheets. The fair values of these commitments are included as "Mortgage loans held for investment, net of allowance for loan losses." The disclosure excludes all non-financial instruments; therefore, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

	As of June 30, 2020					
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment	Estimated Fair Value
	(Dollars in millions)					
Financial assets:						
Cash and cash equivalents and restricted cash	$ 120,224	$ 106,949	$ 13,275	$ —	$ —	$ 120,224
Federal funds sold and securities purchased under agreements to resell or similar arrangements	25,450	—	25,450	—	—	25,450
Trading securities	106,744	96,037	10,571	136	—	106,744
Available-for-sale securities	2,120	—	1,140	980	—	2,120
Mortgage loans held for sale	7,580	—	110	7,892	—	8,002
Mortgage loans held for investment, net of allowance for loan losses	3,451,755	—	3,400,773	195,726	—	3,596,499
Advances to lenders	7,983	—	7,982	1	—	7,983
Derivative assets at fair value	904	—	2,698	314	(2,108)	904
Guaranty assets and buy-ups	120	—	—	260	—	260
Total financial assets	$3,722,880	$ 202,986	$ 3,461,999	$ 205,309	$ (2,108)	$3,868,186
Financial liabilities:						
Short-term debt:						
Of Fannie Mae	$ 42,250	$ —	$ 42,269	$ —	$ —	$ 42,269
Long-term debt:						
Of Fannie Mae	233,387	—	244,967	860	—	245,827
Of consolidated trusts	3,444,338	—	3,565,283	31,733	—	3,597,016
Derivative liabilities at fair value	1,380	—	3,731	45	(2,396)	1,380
Guaranty obligations	133	—	—	85	—	85
Total financial liabilities	$3,721,488	$ —	$ 3,856,250	$ 32,723	$ (2,396)	$3,886,577

	As of December 31, 2019					
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment	Estimated Fair Value
	(Dollars in millions)					
Financial assets:						
Cash and cash equivalents and restricted cash	$ 61,407	$ 50,057	$ 11,350	$ —	$ —	$ 61,407
Federal funds sold and securities purchased under agreements to resell or similar arrangements	13,578	—	13,578	—	—	13,578
Trading securities	48,123	39,501	8,576	46	—	48,123
Available-for-sale securities	2,404	—	1,612	792	—	2,404
Mortgage loans held for sale	6,773	—	229	7,054	—	7,283
Mortgage loans held for investment, net of allowance for loan losses	3,327,389	—	3,270,535	127,650	—	3,398,185
Advances to lenders	6,453	—	6,451	2	—	6,453
Derivative liabilities at fair value	271	—	1,360	199	(1,288)	271
Guaranty assets and buy-ups	142	—	—	305	—	305
Total financial assets	$3,466,540	$ 89,558	$ 3,313,691	$ 136,048	$ (1,288)	$3,538,009
Financial liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$ 478	$ —	$ 478	$ —	$ —	$ 478
Short-term debt:						
Of Fannie Mae	26,662	—	26,667	—	—	26,667
Long-term debt:						
Of Fannie Mae	155,585	—	164,144	401	—	164,545
Of consolidated trusts	3,285,139	—	3,312,763	31,827	—	3,344,590
Derivative liabilities at fair value	435	—	2,092	37	(1,694)	435
Guaranty obligations	154	—	—	97	—	97
Total financial liabilities	$3,468,453	$ —	$ 3,506,144	$ 32,362	$ (1,694)	$3,536,812

For a detailed description and classification of our financial instruments, see “Note 15, Fair Value” in our 2019 Form 10-K.

Fair Value Option

We elected the fair value option for loans and debt that contain embedded derivatives that would otherwise require bifurcation. Additionally, we elected the fair value option for our credit risk-sharing securities accounted for as debt of Fannie Mae issued under our CAS series prior to January 1, 2016. Under the fair value option, we elected to carry these instruments at fair value instead of bifurcating the embedded derivative from such instruments.

Interest income for the mortgage loans is recorded in “Interest income—Mortgage loans” and interest expense for the debt instruments is recorded in “Interest expense—Long-term debt” in our condensed consolidated statements of operations and comprehensive income.

The following table displays the fair value and unpaid principal balance of the financial instruments for which we have made fair value elections.

	As of					
	June 30, 2020			December 31, 2019		
	Loans[(1)]	Long-Term Debt of Fannie Mae	Long-Term Debt of Consolidated Trusts	Loans[(1)]	Long-Term Debt of Fannie Mae	Long-Term Debt of Consolidated Trusts
	(Dollars in millions)					
Fair value	**$ 7,303**	**$ 4,546**	**$ 23,883**	$ 7,825	$ 5,687	$ 21,880
Unpaid principal balance	**6,906**	**4,466**	**20,777**	7,514	5,200	19,653

(1) Includes nonaccrual loans with a fair value of $139 million and $129 million as of June 30, 2020 and December 31, 2019, respectively. The difference between unpaid principal balance and the fair value of these nonaccrual loans as of June 30, 2020 and December 31, 2019 was $19 million and $11 million, respectively. Includes loans that are 90 days or more past due with a fair value of $232 million and $80 million as of June 30, 2020 and December 31, 2019, respectively. The difference between unpaid principal balance and the fair value of these 90 or more days past due loans as of June 30, 2020 and December 31, 2019 was $34 million and $10 million, respectively.

Changes in Fair Value under the Fair Value Option Election

We recorded losses of $10 million and gains of $141 million for the three and six months ended June 30, 2020, respectively, and gains of $126 million and $239 million for the three and six months ended June 30, 2019, respectively, from changes in the fair value of loans recorded at fair value in “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income.

We recorded losses of $574 million and $312 million for the three and six months ended June 30, 2020 respectively, and losses of $222 million and $552 million for the three and six months ended June 30, 2019, respectively, from changes in the fair value of long-term debt recorded at fair value in “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income.

13. Commitments and Contingencies

We are party to various types of legal actions and proceedings, including actions brought on behalf of various classes of claimants. We also are subject to regulatory examinations, inquiries and investigations, and other information gathering requests. In some of the matters, indeterminate amounts are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. This variability in pleadings, together with our and our counsel’s actual experience in litigating or settling claims, leads us to conclude that the monetary relief that may be sought by plaintiffs bears little relevance to the merits or disposition value of claims.

We have substantial and valid defenses to the claims in the proceedings described below and intend to defend these matters vigorously. However, legal actions and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Accordingly, the outcome of any given matter and the amount or range of potential loss at particular points in time is frequently difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how courts will apply the law. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel may view the evidence and applicable law.

On a quarterly basis, we review relevant information about all pending legal actions and proceedings for the purpose of evaluating and revising our contingencies, accruals and disclosures. We establish an accrual only for matters when a loss is probable and we can reasonably estimate the amount of such loss. We are often unable to estimate the possible losses or ranges of losses, particularly for proceedings that are in their early stages of development, where plaintiffs seek indeterminate or unspecified damages, where there may be novel or unsettled legal questions relevant to the proceedings, or where settlement negotiations have not occurred or progressed. Given the uncertainties involved in any action or proceeding, regardless of whether we have established an accrual, the ultimate resolution of certain of these matters may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our net income or loss for that period.

In addition to the matters specifically described below, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. We have also advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to our bylaws and indemnification agreements.

Senior Preferred Stock Purchase Agreements Litigation

A consolidated putative class action (*"In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations"*) and two non-class action lawsuits, *Arrowood Indemnity Company v. Fannie Mae* and *Fairholme Funds v. FHFA*, filed by Fannie Mae and Freddie Mac shareholders against us, FHFA as our conservator, and Freddie Mac are pending in the U.S. District Court for the District of Columbia. The lawsuits challenge the August 2012 amendment to each company's senior preferred stock purchase agreement with Treasury.

Plaintiffs filed amended complaints in all three lawsuits on November 1, 2017 alleging that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments nullified certain of the shareholders' rights, particularly the right to receive dividends. Plaintiffs seek unspecified damages, equitable and injunctive relief, and costs and expenses, including attorneys' fees. Plaintiffs in the class action seek to represent several classes of preferred and/or common shareholders of Fannie Mae and/or Freddie Mac who held stock as of the public announcement of the August 2012 amendments. On September 28, 2018, the court dismissed all of the plaintiffs' claims except for their claims for breach of an implied covenant of good faith and fair dealing.

On May 21, 2018, a plaintiff in a non-class action case, *Angel v. Federal Home Loan Mortgage Corporation*, filed a complaint for declaratory relief and compensatory damages against Fannie Mae (including certain members of its Board of Directors), Freddie Mac (including certain members of its Board of Directors) and FHFA, as conservator, in the U.S. District Court for the District of Columbia. Plaintiff in that case asserts claims for breach of contract, breach of implied covenants of good faith and fair dealing, and aiding and abetting the federal government in avoiding an alleged implicit guarantee of dividend payments. On March 6, 2019, the court granted defendants' motion to dismiss and on March 18, 2019, plaintiff moved to alter or amend the judgment and to file an amended complaint. On May 24, 2019, the court denied this motion. On April 24, 2020, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the lower court's judgment.

Given the stage of these lawsuits, the substantial and novel legal questions that remain, and our substantial defenses, we are currently unable to estimate the reasonably possible loss or range of loss arising from this litigation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information about market risk is set forth in "MD&A—Risk Management—Market Risk Management, Including Interest-Rate Risk Management."

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of June 30, 2020, the end of the period covered by this report. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of June 30, 2020 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of June 30, 2020 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of June 30, 2020 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under "Description of Material Weakness." Based on discussions with FHFA and the structural nature of this material weakness, we do not expect to remediate this material weakness while we are under conservatorship.

Description of Material Weakness

The Public Company Accounting Oversight Board's Auditing Standard 2201 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has determined that we continued to have the following material weakness as of June 30, 2020 and as of the date of filing this report:

- *Disclosure Controls and Procedures.* We have been under the conservatorship of FHFA since September 6, 2008. Under the GSE Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the GSE Act, which places us under the "control" of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures. As both our regulator and our conservator under the GSE

Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our condensed consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of June 30, 2020 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, we do not expect to remediate this material weakness while we are under conservatorship.

Mitigating Actions Related to Material Weakness

As described above under "Description of Material Weakness," we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

- FHFA has established the Division of Resolutions, which is intended to facilitate operation of the company with the oversight of the conservator.
- We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this quarterly report on Form 10-Q for the quarter ended June 30, 2020 ("Second Quarter 2020 Form 10-Q"), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our Second Quarter 2020 Form 10-Q, FHFA provided Fannie Mae management with written acknowledgment that it had reviewed the Second Quarter 2020 Form 10-Q, and it was not aware of any material misstatements or omissions in the Second Quarter 2020 Form 10-Q and had no objection to our filing the Second Quarter 2020 Form 10-Q.
- Our senior management meets regularly with senior leadership at FHFA, including, but not limited to, the Director.
- FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, external communications and legal matters.
- Senior officials within FHFA's Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

Changes in Internal Control Over Financial Reporting

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There have been no changes in our internal control over financial reporting from March 31, 2020 through June 30, 2020 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes that we believe will improve these controls and increase efficiency, while continuing to ensure that we maintain effective internal controls. Changes may include implementing new, more efficient systems, automating manual processes and updating existing systems. For example, we are currently implementing changes to various financial system applications in stages across the company. As we continue to implement these changes, each implementation may become a significant component of our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information in this item supplements and updates information regarding certain legal proceedings set forth in “Legal Proceedings” in our 2019 Form 10-K and our First Quarter 2020 Form 10-Q. We also provide information regarding material legal proceedings in “Note 13, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. However, litigation claims and proceedings of all types are subject to many factors and their outcome and effect on our business and financial condition generally cannot be predicted accurately.

We establish an accrual for legal claims only when a loss is probable and we can reasonably estimate the amount of such loss. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. If certain of these matters are determined against us, FHFA or Treasury, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and August 2018, preferred and common stockholders of Fannie Mae and Freddie Mac filed lawsuits in multiple federal courts against one or more of the United States, Treasury and FHFA, challenging actions taken by the defendants relating to the Fannie Mae and Freddie Mac senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to August 2012 amendments to the agreements, the payment of dividends to Treasury under the net worth sweep dividend provisions, and FHFA’s decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury prior to the August 2012 amendments. Some of the lawsuits also challenge the constitutionality of FHFA’s structure. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. The cases that remain pending after March 31, 2020 are as follows:

District of Columbia. Fannie Mae is a defendant in three cases pending in the U.S. District Court for the District of Columbia—a consolidated putative class action and two additional cases. In all three cases, Fannie Mae and Freddie Mac stockholders filed amended complaints on November 1, 2017 against us, FHFA as our conservator and Freddie Mac. On September 28, 2018, the court dismissed all of the plaintiffs’ claims in these cases, except for their claims for breach of an implied covenant of good faith and fair dealing. In a fourth case that was filed in the U.S. District Court for the District of Columbia on May 21, 2018, the court granted defendants’ motion to dismiss on March 6, 2019, and on March 18, 2019, plaintiff moved to alter or amend the judgment and to file an amended complaint. On May 24, 2019, the court denied this motion. On April 24, 2020, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the lower court’s judgment. All four cases are described in “Note 13, Commitments and Contingencies.”

Southern District of Texas (Collins v. Mnuchin). On October 20, 2016, preferred and common stockholders filed a complaint against FHFA and Treasury in the U.S. District Court for the Southern District of Texas. On May 22, 2017, the court dismissed the case. On September 6, 2019, the U.S. Court of Appeals for the Fifth Circuit, sitting en banc, affirmed the district court’s dismissal of claims against Treasury, but reversed the dismissal of claims against FHFA. The court held that plaintiffs could pursue their claim that FHFA exceeded its statutory powers as conservator when it implemented the net worth sweep provisions of the senior preferred stock purchase agreements in August 2012. The court also held that the provision of the Housing and Economic Recovery Act that insulates the FHFA Director from removal without cause violates constitutional separation of powers principles and, thus, that the FHFA Director may be removed by the president for any reason. The court held that the appropriate remedy for this violation is to declare the provision severed from the statute. Both the plaintiffs and the government filed petitions with the Supreme Court seeking review of the Fifth Circuit’s decision. The Supreme Court granted those petitions on July 9, 2020 and will review the case.

Western District of Michigan. On June 1, 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the Western District of Michigan. FHFA and Treasury moved to dismiss the case on September 8, 2017, and plaintiffs filed a motion for summary judgment on October 6, 2017.

District of Minnesota. On June 22, 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the District of Minnesota. The court dismissed the case on July 6, 2018, and plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Eighth Circuit on July 10, 2018.

Eastern District of Pennsylvania. On August 16, 2018, common stockholders of Fannie Mae and Freddie Mac filed a complaint for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the Eastern District of

Pennsylvania. FHFA and Treasury moved to dismiss the case on November 16, 2018, and plaintiffs filed a motion for summary judgment on December 21, 2018.

U.S. Court of Federal Claims. Numerous cases are pending against the United States in the U.S. Court of Federal Claims. Fannie Mae is a nominal defendant in four of these cases: *Fisher v. United States of America*, filed on December 2, 2013; *Rafter v. United States of America*, filed on August 14, 2014; *Perry Capital LLC v. United States of America*, filed on August 15, 2018; and *Fairholme Funds Inc. v. United States*, which was originally filed on July 9, 2013, and amended publicly to include Fannie Mae as a nominal defendant on October 2, 2018. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The *Fisher* plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the *Rafter*, *Perry Capital* and *Fairholme Funds* plaintiffs are pursing the claim both derivatively and directly against the United States. Plaintiffs in *Rafter* also allege direct and derivative breach of contract claims against the government. The *Perry Capital* and *Fairholme Funds* plaintiffs allege similar breach of contract claims, as well as direct and derivative breach of fiduciary duty claims against the government. Plaintiffs in *Fisher* request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in *Rafter*, *Perry Capital* and *Fairholme Funds* seek just compensation for themselves on their direct claims and payment of damages to Fannie Mae on their derivative claims. The United States filed a motion to dismiss the *Fisher*, *Rafter* and *Fairholme Funds* cases on August 1, 2018. On December 6, 2019, the court entered an order in the *Fairholme Funds* case that granted the government's motion to dismiss all the direct claims but denied the motion as to all of the derivative claims brought on behalf of Fannie Mae. On June 18, 2020, the U.S. Court of Appeals for the Federal Circuit agreed to hear the appeal of the court's December 6, 2019 order. In the *Fisher* case, the court denied the government's motion to dismiss on May 8, 2020 and certified the case for appeal on June 11, 2020.

Item 1A. Risk Factors

In addition to the information in this report, you should carefully consider the risks relating to our business that we identify in "Risk Factors" in our 2019 Form 10-K. This section supplements and updates that discussion. Also refer to "MD&A—Risk Management," "MD&A—Single-Family Business" and "MD&A—Multifamily Business" in our 2019 Form 10-K and in this report for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by any forward-looking statements we make. We believe the risks described in the sections of this report and our 2019 Form 10-K identified above are the most significant we face; however, these are not the only risks we face. We face additional risks and uncertainties not currently known to us or that we currently believe are immaterial.

The COVID-19 pandemic has adversely affected our business, financial results and financial condition, and we expect that it will continue to do so. The adverse impact of the COVID-19 pandemic on our business, financial results and financial condition could be materially greater than we currently anticipate.

The COVID-19 pandemic caused substantial financial market volatility and has significantly adversely affected both the U.S. and global economies. While state and local governments throughout the country have taken steps to re-open their economies, lifting shut-down and stay-at-home orders to varying degrees, a number of states and local governments are slowing or pausing their re-openings, or imposing new shut-down orders, as the daily number of new cases of COVID-19 has continued to reach new highs. The extensive shutdowns and other reductions in business activity across the country and globally, including those resulting from individuals and households seeking to avoid infection, have substantially increased unemployment from pre-pandemic levels.

The disruption caused by the pandemic differs from previous economic downturns because of the high level of uncertainty related to the health and safety of consumers and workers. We expect the path and timing of economic recovery will be impacted by the rate of new COVID-19 cases and the associated mortality rates. We believe that economic recovery depends on the stable return of consumer spending, increased business activity, and a reduction in unemployment, all of which impact the ability of borrowers and renters to make their monthly payments. The federal government has taken many actions to reduce the negative economic impact of the pandemic, including providing direct funding to affected households and businesses, as described in "Executive Summary—COVID-19 Impact—Economic Impact." Absent additional government action, some of these programs are ending, including the $600 weekly addition to unemployment benefits, which expires at the end of July. The ultimate impact of these programs expiring and the extent to which existing and future government actions will mitigate the negative impacts of COVID-19 on the U.S. economy and our business is unclear. The pandemic resulted in a contraction in U.S. GDP for the first half of 2020 and could result in future declines in or a sustained drop in the level of U.S. economic activity. We expect the impact of the COVID-19 pandemic to continue to negatively affect our financial results and our returns on capital under FHFA's conservatorship capital requirements. We expect the pandemic to contribute to lower net income in 2020 than in 2019. We could have a net loss in one or more future periods or possibly could have a net worth deficit that requires a draw from Treasury under the senior preferred stock purchase agreement.

Our current forecasts and expectations relating to the impact of the COVID-19 pandemic are subject to many uncertainties and may change, perhaps substantially. It is difficult to assess or predict the impact of this unprecedented event on our business, financial results or financial condition. Factors that will impact the extent to which the COVID-19 pandemic affects our business, financial results and financial condition include: the duration, spread and severity of COVID-19 outbreaks; the actions taken to contain the virus or treat its impact, including government actions to mitigate the economic impact of the pandemic; the extent to which consumers, workers and families feel safe resuming business activities and school; the nature and extent of the forbearance, modification, and other loss mitigation options borrowers affected by the pandemic obtain from us; accounting elections and estimates relating to the impact of the COVID-19 pandemic; borrower and renter behavior in response to the pandemic and its economic impact; how quickly and to what extent normal economic and operating conditions can resume, including whether any future outbreaks interrupt economic recovery; and how quickly and to what extent affected borrowers, renters and counterparties can recover from the negative economic impact of the pandemic. While we are unable to predict the future course of these events or their longer-term effects on our business, key areas we have identified where the COVID-19 pandemic is negatively affecting or may negatively affect our business, financial results and financial condition are described below:

- *Increased borrower credit risk.* Among other factors, income growth and unemployment levels affect borrowers' ability to repay their mortgage loans. We expect the economic dislocation caused by the COVID-19 pandemic and resulting higher unemployment rates to result in continued higher delinquency rates and possibly in significantly higher defaults on the mortgage loans in our guaranty book of business. Because of this expectation, our credit-related expenses were substantially higher in the first half of 2020. As there is significant uncertainty associated with the impact of the COVID-19 pandemic, we may ultimately experience greater losses than we currently expect and also may have high credit-related expenses in future quarters. Moreover, at FHFA's direction and/or as required by the CARES Act, we are taking a number of actions to help borrowers affected by the COVID-19 pandemic that we expect will adversely affect our financial results and financial condition, including requiring that our servicers:
    - provide up to 12 months of forbearance to single-family borrowers impacted by COVID-19-related financial hardships who request forbearance;
    - provide up to six months of forbearance to eligible multifamily borrowers impacted by COVID-19-related financial hardships on the condition that such borrowers suspend evictions and other penalties relating to late payments during the forbearance period; and
    - suspend foreclosures and foreclosure-related activities for single-family properties (other than for vacant or abandoned properties) through at least August 31, 2020.

  The CARES Act also instituted a temporary moratorium through July 25, 2020 on tenant evictions for nonpayment of rent that applied to single-family or multifamily properties that secure a mortgage loan we own or guarantee, which is likely to adversely affect the ability of some of our borrowers to make payments on their loans. We discuss the actions we have taken and their impact in more in more detail in "MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management" and in "MD&A—Multifamily Business—Multifamily Mortgage Credit Risk Management."

  Our loans in forbearance generally have a weaker credit profile than our overall guaranty book of business. If a large number of borrowers cannot repay the amounts owed at the end of their forbearance plans or over time, or fail to qualify for modifications, this could result in significantly higher defaults on the mortgage loans in our guaranty book of business. Some states and localities have also implemented or are considering borrower and renter protections that are more extensive than the CARES Act requirements and our requirements. These additional protections, depending on their scope and whether and to what extent they apply to our business, could contribute to a higher number of single-family and multifamily borrowers becoming delinquent on their loans or could limit our ability to complete foreclosures.

  In addition, we expect the economic dislocation resulting from the COVID-19 pandemic will likely continue to negatively affect home sales and could lead to declines in home prices and multifamily property valuations. If this occurs, it would increase the amount of our loss in the event a borrower defaults on their loan. Lower home prices and multifamily property valuations would likely also lead to deterioration in loan performance and changes in borrower behavior, and potentially prohibit some borrowers from being able to refinance their loans. The magnitude of the impact would likely vary significantly across geographic regions and based on the credit characteristics of the loans.

  The COVID-19 pandemic may also affect the credit quality of our new loan acquisitions. For example, CARES Act provisions prohibiting lenders from reporting previously-current borrowers receiving COVID-19-related payment accommodations as delinquent to the credit bureaus may result in our not having accurate data on a borrower's credit history when we are determining the eligibility of the single-family loans we acquire.

- *Increased human capital and business resiliency risk.* As of July 26, 2020, according to the U.S. Centers for Disease Control and Prevention, there were more than 4.2 million reported cases of COVID-19 in the United States, with over 60,000 new cases reported that day. While we have succession plans in place, they may not be effective. If a significant number of our executives or other employees, or their family members for whom they provide care, contract COVID-19 during the same time period, it could materially adversely affect our ability to manage our business, which could have a material adverse effect on our results of operations and financial condition. The risk of executives, other employees or their family members contracting COVID-19 may increase with the resumption of business activity and the reopening of workplaces and schools.

Since mid-March, we have required nearly all of our workforce to work remotely, which we refer to as telework. In addition, nearly all of our workforce is located in a geographic region where the state or local government issued a stay-at-home order and/or closed schools. While stay-at-home orders and some closures have been lifted, depending on the course of the pandemic, they may be reinstated, and schools may continue to be closed, at least partly, when the fall semester begins. The strain on our workforce and our business operations caused by this shift in the work and home environment, our future efforts to return to the workplace with new measures in place to protect the health of our workforce, and the high level of uncertainty surrounding these issues may result in business interruptions, significantly reduced productivity and other adverse impacts on our operations. While our technological systems to date have continued to function with our workforce working remotely, this telework arrangement increases the risk of technological or cybersecurity incidents that negatively affect our business operations. This telework arrangement, as well as the risk that a significant number of employees or their family members could contract COVID-19 and our reliance on third parties for some functions, also could adversely affect our ability to maintain effective controls and procedures, which could result in material errors in our reported results or disclosures that are not complete or accurate.

- *Increased counterparty credit and operational risk.* The economic dislocation caused by the COVID-19 pandemic could lead to default by one or more of our institutional counterparties on their obligations to us. If a counterparty were to default on its obligations to us, it could result in significant financial losses. Counterparty defaults could also negatively impact our ability to operate our business, as we outsource some of our critical functions to third parties, such as mortgage servicing, single-family Fannie Mae MBS issuance and administration, and certain technology functions.

  For the majority of loans in our single-family guaranty book of business, our Single-Family Servicing Guide has, until recently, required servicers to advance missed scheduled principal and interest payments to the MBS trusts for payment to MBS holders until the loans were purchased from the MBS trusts. As described in “MD&A—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Problem Loan Management,” effective in August 2020, our servicers’ obligations to advance these payments will end after four months of missed borrower payments, rather than continuing until the loans are purchased from the MBS trusts. Single-family servicers are also required to advance property tax and insurance payments to taxing authorities, hazard insurers and mortgage insurers. For nearly all of our multifamily guaranty book of business, when borrowers do not pay their mortgages, our Multifamily Selling and Servicing Guide requires lenders to advance the missed scheduled principal and interest payments to MBS trusts for payment to MBS holders for up to four months before they are eligible for reimbursement. If a large number of single-family or multifamily borrowers do not pay their mortgages as a result of the economic dislocation caused by the COVID-19 pandemic, our servicers may not have sufficient liquidity to advance the missed payments to MBS trusts. In such case, we would be required to make the payments, which could require us to obtain substantial additional funding. See below for a description of our increased liquidity risk.

  In addition, if multiple single-family or multifamily servicers were to fail to meet their obligations to us, it could cause substantial disruption to our business, borrowers and the mortgage industry. We may not be able to transfer the servicing of loans to new servicers without significant operational disruptions and financial losses, and there may not be sufficient industry capacity to take on large servicing transfers. A large portion of our single-family and multifamily guaranty books of business are serviced by non-depository servicers. We believe the counterparty risks associated with our non-depository servicers are higher than the risks associated with our depository servicers, as our non-depository servicers typically have lower financial strength, liquidity and operational capacity than our depository servicers, which may negatively affect their ability to fully satisfy their financial obligations or to properly service the loans on our behalf. The actions we have taken to mitigate our credit risk exposure to mortgage servicers may not be sufficient to prevent us from experiencing significant financial losses or business interruptions in the event they cannot fulfill their obligations to us.

  As noted above, the economic dislocation caused by the COVID-19 pandemic could lead to significantly higher defaults on mortgage loans. A substantially higher level of mortgage defaults could affect our mortgage insurer counterparties' ability to fully meet their payment obligations to us.

- *Increased liquidity risk.* As described in “MD&A—Liquidity and Capital Management,” while market conditions improved in the second quarter of 2020, adverse market conditions in March limited our ability to issue debt with a maturity greater than two years. If market conditions deteriorate again and limit our ability to issue longer-term debt, we may need to fund longer-term assets with short-term debt, which would increase the roll-over risk on our outstanding debt.

If the financial markets experience substantial volatility in the future similar to or more intensely than earlier this year, it could significantly adversely affect the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth. If the COVID-19 pandemic results in a sustained market liquidity crisis, our liquidity contingency plans may be difficult or impossible to execute. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired. In this event, our alternative source of liquidity, our other investments portfolio, may not be sufficient to meet our liquidity needs.

In addition, we expect our debt funding needs to increase. We expect the impact of the COVID-19 pandemic and significantly higher rates of loan delinquencies, forbearances and other loss mitigation activity will require us to fund greater amounts of tax and insurance payments and, for loans in forbearance that back MBS trusts, principal and interest payments to the MBS trusts, after borrowers have missed four months of payments; purchases of a larger volume of delinquent loans from MBS trusts; whole loan conduit activity, which may remain at a high volume; and greater holdings of liquid assets to comply with new liquidity requirements recently issued by FHFA. Our aggregate indebtedness may not exceed $300 billion pursuant to the terms of our senior preferred stock purchase agreement with Treasury. Depending on the extent of our funding needs and the amount, if any, by which Treasury and FHFA agree to any request we make for an increase in our debt limit, our business activities and our ability to meet our objectives may be constrained.

- *Increased market risk*. Market dislocations relating to the COVID-19 pandemic have made it more challenging to manage our interest-rate risk. In addition, the overall decline in rates during the first half of 2020 resulted in declines in the fair value of some of the financial instruments that we mark to market through our earnings, which contributed to our fair value losses for the period. While we have not generally experienced negative interest rates in the United States, some central banks in Europe and Asia have in the past cut interest rates below zero. If the financial markets experience substantial volatility in the future similar to or more intensely than earlier this year or if U.S. interest rates decline further or fall below zero, it could further negatively affect our ability to manage our interest-rate risk and result in additional fair value losses, and negative interest rates could increase our operational risk. Furthermore, with the anticipated decline in borrower performance due to impact of the COVID-19 pandemic and increased uncertainty regarding the value of mortgage-related assets in the current environment, we may have higher investment losses in future periods relating to decreases in the fair value of our loans that are held for sale.
- *Constraints on new credit risk transfer transactions.* For the last several years we have used credit risk transfer transactions as an important tool to manage the credit risk of our loan acquisitions. We have also used them to reduce our overall conservatorship capital requirements. We did not enter into new credit risk transfer transactions in the second quarter of 2020 due to continuing adverse market conditions resulting from the COVID-19 pandemic. Although market conditions have improved, we currently do not have plans to engage in additional credit risk transfer transactions as we evaluate FHFA's re-proposed capital rule, which would reduce the amount of capital relief we obtain from these transactions. We will continue to review our plans, which may be affected by our evaluation of the proposed capital rule and changes in the rule as it is finalized, our progress in meeting FHFA's 2020 conservatorship scorecard, the strength of future market conditions, and our review of our overall business and capital plan to enable us to exit conservatorship. As a result, we may incur increased credit losses in connection with our loan acquisitions that are not covered by a credit risk transfer transaction and we expect our capital requirements to increase. See "MD&A—Legislation and Regulation" for more information on FHFA's proposed capital rule.
- *Limitations on ability to engage in reperforming and nonperforming loan sales.* We suspended new sales of nonperforming and reperforming loans in the second quarter of 2020, as investor interest in purchasing these loans was severely impacted by the COVID-19 pandemic and its effects. Investor interest in purchasing reperforming loans has recently returned, and therefore we are considering resuming sales of reperforming loans. As investor interest in purchasing nonperforming loans has not returned, we do not anticipate entering into new contracts for sales of nonperforming loans in the near future. To the extent future market conditions are not favorable to sales of reperforming and nonperforming loans in our retained mortgage portfolio, we will not be able to use such sales as a way to reduce our credit risk, the size of our retained mortgage portfolio and our conservatorship capital requirements.
- *Increased model and accounting estimate risk.* Given the unprecedented nature and timing of the COVID-19 pandemic and its uncertain impact, we believe our model results relating to our allowance for loan losses currently cannot accurately capture the entirety of loan losses we will ultimately incur relating to COVID-19. For both the first and second quarters of 2020, management used its judgment to adjust loss projections developed by our credit loss model to reflect our expectations relating to COVID-19's impact on our loan losses, but these judgments may be inaccurate and we may ultimately experience greater losses, perhaps substantially, than we currently expect. The unprecedented nature of the COVID-19 pandemic may also negatively affect our ability to rely on models to effectively manage the risks to our business. The CARES Act provisions prohibiting lenders from reporting some borrowers receiving COVID-19-related payment accommodations as delinquent may also impact the stability of the interpretation and predictiveness of borrower credit data and therefore the reliability of our models in the future.

- *Potential reduced demand for mortgages.* The COVID-19 pandemic and its impact on the economy may reduce demand for both single-family and multifamily mortgage loans, which could reduce our future loan acquisitions and guaranty fee income. In addition, government and business closures relating to COVID-19 are likely delaying or preventing some closings on both new purchase loans and refinances.
- *Increased risk of additional government action affecting our business.* Federal, state and local governments have taken many actions that have or that we expect will adversely affect our financial results, such as stay-at-home orders and business shut-downs, and the loan forbearance requirements of the CARES Act. The U.S. Congress, Treasury, the Federal Reserve, FHFA or other national, state or local government agencies or legislatures may take additional steps in response to the COVID-19 pandemic that could adversely affect our business, financial results and financial condition, such as expanding or extending our obligations to help borrowers, renters or counterparties affected by the pandemic or imposing new or expanded business shut-downs.
- *Increased uncertainty relating to our exit from conservatorship.* The COVID-19 pandemic could delay or prevent our exit from conservatorship, particularly as it may delay our ability to build and raise sufficient capital to exit conservatorship. In addition, as we, FHFA and Treasury focus on responding to the COVID-19 pandemic, it may reduce our and their capacity to work toward meeting other preconditions for exiting conservatorship.
- *Increased risk of mortgage fraud.* In response to the COVID-19 pandemic, we are offering certain temporary flexibilities relating to our Single-Family Selling Guide requirements. This could increase the risk of mortgage fraud relating to the loans we acquire during the COVID-19 pandemic. In addition, the CARES Act provides that a single-family borrower may obtain mortgage payment forbearance with no additional documentation required other than the borrower's attestation to a financial hardship caused by COVID-19, which creates the risk that borrowers who are not experiencing financial hardship may request a forbearance.

For more information on the risks to our business relating to borrower credit risk, counterparty credit risk, economic conditions, market risk, liquidity risk, operational risk, model risk and other types of risks described above, see "Risk Factors" in our 2019 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Common Stock

Our common stock is traded in the over-the-counter market and quoted on the OTCQB, operated by OTC Markets Group, Inc., under the ticker symbol "FNMA."

Recent Sales of Unregistered Equity Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended June 30, 2020, we did not sell any equity securities.

Information about Certain Securities Issuances by Fannie Mae

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Because the securities we issue are exempted securities under the Securities Act of 1933, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our website or in a current report on Form 8-K that we file with the SEC, in accordance with a "no-action" letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae's universal debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our obligations pursuant to the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements.

We are providing our website address solely for your information. Information appearing on our website is not incorporated into this report.

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the second quarter of 2020.

Dividend Restrictions

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA's regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA has directed us to make dividend payments on the senior preferred stock on a quarterly basis for every dividend period for which dividends were payable.

Restrictions Under Senior Preferred Stock Purchase Agreement and Senior Preferred Stock. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, pursuant to the dividend provisions of the senior preferred stock and directives from our conservator, we are obligated to pay Treasury each quarter any dividends declared consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds $25 billion. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Business—Conservatorship, Treasury Agreements and Housing Finance Reform" in our 2019 Form 10-K.

Additional Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

Statutory Restrictions. Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the Charter Act and the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized. The Director of FHFA, however, may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed below are being filed or furnished with or incorporated by reference into this report.

Item	Description
3.1	Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.) as amended through July 25, 2019 (Incorporated by reference to Exhibit 3.1 to Fannie Mae's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, filed October 31, 2019.)
3.2	Fannie Mae Bylaws, as amended through January 29, 2019 (Incorporated by reference to Exhibit 3.2 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2018, filed February 14, 2019.)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101. INS	Inline XBRL Instance Document* - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101. SCH	Inline XBRL Taxonomy Extension Schema*
101. CAL	Inline XBRL Taxonomy Extension Calculation*
101. DEF	Inline XBRL Taxonomy Extension Definition*
101. LAB	Inline XBRL Taxonomy Extension Label*
101. PRE	Inline XBRL Taxonomy Extension Presentation*
104	Cover Page Interactive Data File* - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document included as Exhibit 101

* The financial information contained in these XBRL documents is unaudited.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal National Mortgage Association

By: /s/ Hugh R. Frater

Hugh R. Frater
Chief Executive Officer

Date: July 30, 2020

By: /s/ Celeste M. Brown

Celeste M. Brown
Executive Vice President and
Chief Financial Officer

Date: July 30, 2020

Fannie Mae®