Federal Housing Finance Agency

Conservator's Report
on the Enterprises' Financial Performance

Second Quarter 2011

Contents

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

Executive Summary

Mortgage Markets and the Enterprises' Market Presence

Mortgage originations are on pace to be below 2010 levels, despite declining mortgage rates during the first half of 2011. The Enterprises experienced a decline in MBS issuance market share as Ginnie Mae market share increased.

Credit Quality of New Single-Family Business

The quality of new business remained high in the second quarter of 2011. The average FICO credit score of new single-family business for the first half of 2011 remained high at greater than 750. Purchases of non-traditional mortgages remained very low.

Capital

Combined Treasury support as a result of financial performance in the second quarter of 2011 was $6.6 billion. The Single-Family Credit Guarantee segment continues to drive losses as credit-related expenses remain high. The Investments segment results were positive in the second quarter of 2011, partially offsetting the Single-Family Credit Guarantee segment performance. As the Investments segment generates positive results, the Single-Family Credit Guarantee segment accounts for a growing proportion of total cumulative charges against capital.

The Single-Family Credit Guarantee segment accounts for $201 billion, or 81 percent of combined charges against capital of $247 billion since the end of 2007.

Single-Family Credit Guarantee Segment Results

Credit-related expenses continue to drive segment financial results for the Enterprises. However, Fannie Mae's credit-related expenses were positively impacted during the first half of 2011 by a lower provision for credit losses in 2Q11. The decrease in provision for credit losses at Fannie Mae was partly due to an increase in make-whole amounts related to repurchase requests that were received during the quarter.

Investments and Capital Markets Segment Results

The Investments and Capital Markets segment was a positive contributor to capital for the first half of 2011. Funding costs remained low as a result of the interest rate environment and the pricing of private-label securities improved.

Loss Mitigation Activity

Loan modifications are on pace to be below 2010 levels as the level of modifications have steadily declined due partly to HAMP income verification requirements and requirements that non-HAMP Fannie Mae modifications go through a trial period.

Projections of Financial Performance

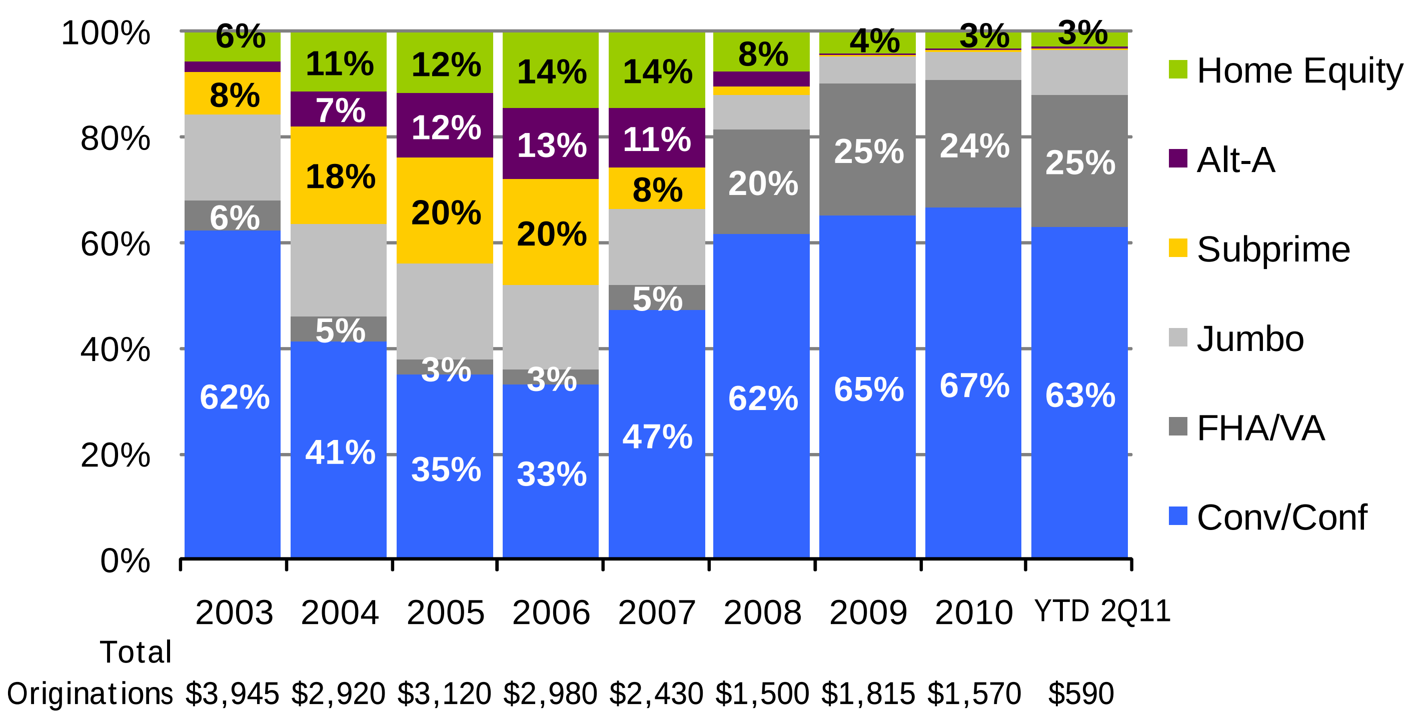
The projected combined Treasury draws for the second half of 2010 and the first half of 2011 ranged from $39 billion to $93 billion (as of October 2010). The actual combined Treasury draw for the second half of 2010 and the first half of 2011 was $21 billion. The primary drivers of the difference were fewer actual non-performing loans and mortgage defaults than projected. In addition, actual prices of private-label securities were higher than projected, which also contributed to the difference.

1 Mortgage Markets and the Enterprises' Market Presence

1.1 Primary Mortgage Market Trends—Mortgage Originations

- Mortgage originations year to date of $590 billion are on pace to be below 2010 levels. In addition, the conventional/conforming origination share fell while FHA/VA origination share increased.

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

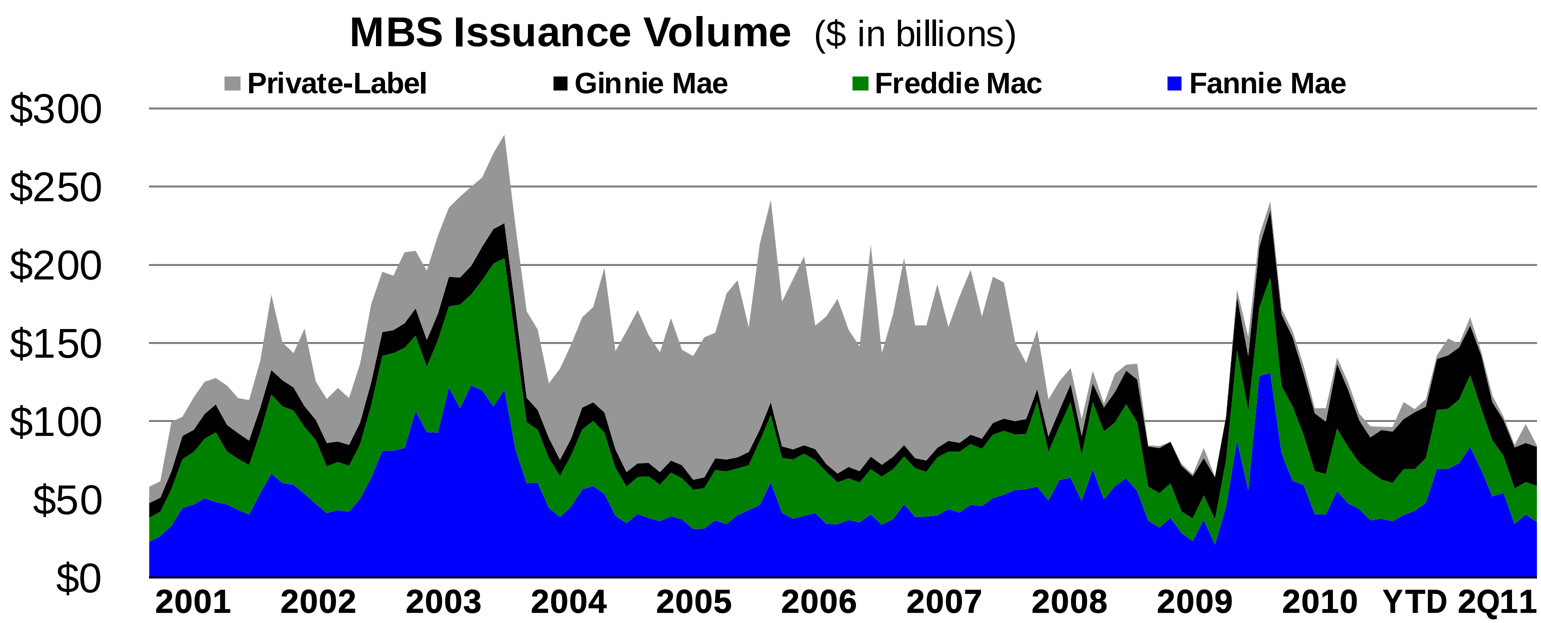


Source:
Inside Mortgage Finance.

1.2 Secondary Mortgage Market Trends—Mortgage-Backed Securities Issued

- The Enterprises' market share of mortgage-backed securities (MBS) issuances for the first half of 2011 rose slightly as Ginnie Mae's market presence decreased. The Enterprises and Ginnie Mae continued to account for almost all issuances of mortgage-backed securities.

Figure 1.2 Enterprises' Market Share – MBS Issuance Volume



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD 2Q11
Enterprises	67%	68%	70%	47%	41%	40%	58%	73%	72%	70%	71%
Ginnie Mae	13%	9%	8%	7%	4%	4%	5%	22%	25%	26%	25%
Total Agency	80%	77%	78%	54%	45%	44%	63%	95%	97%	96%	96%

Sources:
Inside Mortgage Finance, Inside MBS & ABS, Enterprises' Monthly Volume Summaries.
Issuance figures exclude MBS issued backed by assets previously held in the Enterprises' portfolios.

2 Credit Quality of New Single-Family Business

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

- The credit quality of new Single-Family business remained high during the first half of 2011. Purchases of non-traditional and higher-risk mortgages were very low and the average FICO credit score was over 750 at both Enterprises. The increase in the percentage of new business with LTVs greater than 90 percent primarily relates to the Enterprises' refinance programs, including the Home Affordable Refinance Program.

Figure 2.1 Characteristics of Single-Family Mortgage Acquisitions

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Percent of New Single-Family Business[1]
(Categories overlap and are not additive)

	Fannie Mae						Freddie Mac					
	2006	2007	2008	2009	2010	YTD 2Q11	2006	2007	2008	2009	2010	YTD 2Q11
Alt-A[2]	22%	17%	3%	0%	1%	1%	18%	22%	7%	0%	0%	0%
Interest-Only	15%	15%	6%	1%	1%	1%	17%	21%	6%	0%	0%	0%
Credit Score <620	6%	6%	3%	0%	0%	0%	5%	6%	3%	1%	1%	1%
LTV >90 Percent	10%	16%	10%	4%	7%	9%	6%	11%	9%	4%	9%	12%
Average LTV	73%	75%	72%	67%	68%	69%	73%	74%	71%	67%	69%	70%
Average Credit Score	716	716	738	761	762	760	720	718	734	756	755	753

Notes
[1] New business is defined as issuance of MBS/PC plus purchases of whole loans and does not include purchases of mortgage-related securities.
[2] Refer to sources for Alt-A definitions. Freddie Mac's 2010 figures include Alt-A purchases of $1.5 billion due to a long-term standby commitment termination and a subsequent PC issuance. There was no change to the Alt-A exposure on these mortgages as a result of these transactions. Fannie Mae newly originated Alt-A loans acquired in 2009 through 2011 consist of the refinance of existing loans.

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

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

- Serious delinquency rates remain high for the Enterprises' Single-Family credit guarantee portfolios. Non-traditional and higher-risk mortgages, which account for a relatively small portion of the credit guarantee portfolios, continue to show substantially higher serious delinquency rates than traditional mortgages.

Figure 2.2 Single-Family Serious Delinquency Rates

	Fannie Mae					Freddie Mac				
	4Q07	4Q08	4Q09	4Q10	2Q11	4Q07	4Q08	4Q09	4Q10	2Q11
Product Type[1]										
Alt-A	2.2%	7.0%	15.6%	13.9%	13.0%	1.9%	5.6%	12.3%	12.2%	11.7%
Interest-Only	2.0%	8.4%	20.2%	17.9%	16.3%	2.0%	7.6%	17.6%	18.4%	17.7%
Credit Score										
<620	4.7%	9.0%	18.2%	14.6%	13.7%	3.4%	7.8%	14.9%	13.9%	12.5%
Loan-to-Value Ratio										
>90 Percent	3.0%	6.3%	13.1%	10.0%	8.8%	1.9%	4.8%	9.1%	7.8%	6.8%
Risk-Layering										
Credit score <620 & LTV >90 Percent	8.6%	16.0%	28.0%	21.4%	19.4%	5.4%	11.5%	19.0%	17.1%	15.1%
Total Single-Family	1.0%	2.4%	5.4%	4.5%	4.1%	0.7%	1.8%	4.0%	3.8%	3.5%

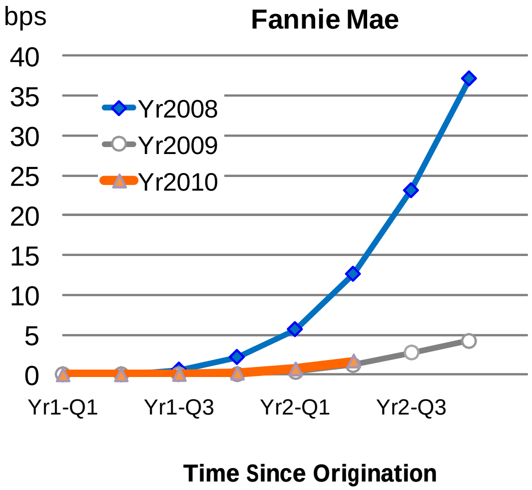
Notes
[1] Loans with multiple product features may be in more than one category. Refer to sources for Alt-A definition.

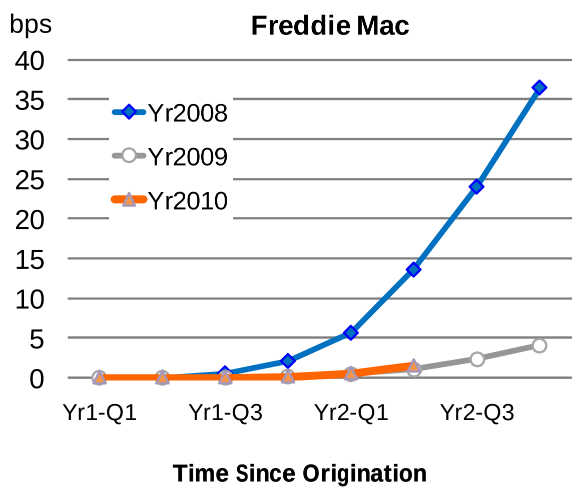
Sources:
Enterprises' Forms 10-K and 10-Q, credit supplements to SEC disclosures, and management reports.

2.3 Performance of Post-Conservatorship Business

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

Figure 2.3 Cumulative Default Rate by Origination Year





Fannie Mae[1]

Vintage	Yr1Q4	Yr 2Q4
2002	0.4	9.5
2003	0.4	7.1
2004	0.7	11.6
2005	0.7	14.0
2006	1.3	37.4
2007	3.0	78.9
2008	2.2	37.1
2009	0.1	4.2
2010	0.2	N/A

Freddie Mac[2]

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

Source:
Enterprises' quarterly credit supplements.

Notes
[1] Defaults include loan liquidations other than through voluntary pay-off or repurchase by lenders and include loan foreclosures, preforeclosure sales, sales to third parties and deeds-in-lieu of foreclosure. Cumulative Default Rate is the total number of single-family conventional loans in the guarantee book of business originated in the identified year that have defaulted, divided by the total number of single-family conventional loans in Fannie Mae's guarantee book of business originated in the identified year.
[2] Rates are calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, divided by the number of loans in Freddie Mac's single-family credit guarantee portfolio originated in the identified year.

3. Capital

3.1 Capital Changes: January 1, 2008 – June 30, 2011

- At the end of 2007, the Enterprises had $71 billion of combined capital. From the end of 2007 through the second quarter of 2011, the Enterprises' combined charges against capital have totaled $247 billion, requiring Treasury support of $169 billion through draws under the Preferred Stock Purchase Agreements. The Single-Family Credit Guarantee segment has been the largest contributor to charges against capital, accounting for $201 billion, or 81 percent, of capital reduction to date.

Figure 3.1 Capital Changes: January 1, 2008 – June 30, 2011 *($ in billions)*

	Fannie Mae		Freddie Mac		Combined	
Beginning Capital[1]	$44		$27		$71	
Equity Issuance[2]	7		0		7	
Available Capital	$51		$27		$78	
Capital Change						
Single-Family Comprehensive Income[3]	($133)	*86%*	($68)	*74%*	($201)	*81%*
Multifamily Comprehensive Income[3,4]	(6)	*4%*	14	*-15%*	8	*-3%*
Investments Comprehensive Income[3,4]	7	*-4%*	(10)	*11%*	(3)	*1%*
Consolidation Accounting Adjustment	3	*-2%*	(12)	*13%*	(8)	*3%*
Other	(12)	*8%*	(3)	*3%*	(15)	*6%*
Senior Preferred dividends	(15)	*9%*	(13)	*14%*	(28)	*11%*
Total Capital Change[5]	($155)	*100%*	($92)	*100%*	($247)	*100%*
Capital deficit	($104)		($65)		($169)	
Treasury Senior Preferred draw[6]	$103.8		$65.2		$169.0	

Sources:
Fannie Mae segment earnings per Fannie Mae SEC disclosures for the relevant time periods.
Freddie Mac's 2008 and 2009 comprehensive income by segment reflect revised methodology effective January 1, 2010.

The presentation on this page and other pages discussing segment results in this report reflect a change in reporting convention from prior reports. The Single-Family Guarantee segment and Multifamily segment figures for 2009, 2010 and year-to-date 2011 have been revised to reflect net income (loss) plus other comprehensive income (loss), instead of net income (loss) only. The Investments segment figures have been changed to reflect net income (loss) plus other comprehensive income (loss) for the Investments segment only. In reports prior to 1Q11, the Investments segment included net income (loss) plus other comprehensive income (loss) for all of the other segments.

Notes
Totals may not sum due to rounding.
[1] Capital is defined as stockholders' equity.
[2] Fannie Mae's figure includes common and preferred stock issuance pre-conservatorship.
[3] Segment comprehensive income represents net income (loss) plus other comprehensive income (loss) by segment.
[4] Freddie Mac includes net interest income on investments in multifamily loans, net interest income on commercial mortgage backed securities, and non-interest rate risk-related unrealized gains (losses) on commercial mortgage-backed securities in Multifamily Comprehensive Income, while Fannie Mae includes these items in Investments comprehensive income. Investments comprehensive income includes the impact of accounting changes for security impairments.
[5] Included in total capital change for both Enterprises are losses attributable to the writedown of low income housing tax credits (LIHTC) investments to zero in the fourth quarter of 2009. The writedown of these LIHTC losses for Fannie Mae and Freddie Mac were $5 billion and $3 billion, respectively, and are included in Other. The establishment of a deferred tax asset valuation allowance, which reduced capital by $21 billion for Fannie Mae and $14 billion for Freddie Mac in 2008, is also contributing to the total capital change (valuation allowance has been allocated across segments).
[6] Total draws include amounts relating to the second quarter of 2011 to be received in the third quarter of 2011.

3.2 Capital Changes: Second Quarter 2011

- During the second quarter of 2011, losses from the Single-Family Credit Guarantee segment more than offset positive contributions to capital from the Investments segment and the Multifamily segment at the combined Enterprises.

Figure 3.2 Capital Changes: March 31, 2011 – June 30, 2011 *($ in billions)*

	Fannie Mae	Freddie Mac	Combined
Available Capital[1]	$0	$1	$1
Capital Change			
Single-Family Comprehensive Income[2]	($5)	($2)	($7)
Multifamily Comprehensive Income[2]	0	1	1
Investments Comprehensive Income[2]	3	1	3
Other	(1)	0	(1)
Capital increase (decrease) pre-dividends	($3)	($1)	($4)
Senior Preferred dividends	(2)	(2)	(4)
Total Capital Change	($5)	($3)	($8)
Capital deficit	($5)	($1)	($7)
Treasury Senior Preferred draw[3]	$5.1	$1.5	$6.6

Sources:
Fannie Mae and Freddie Mac SEC disclosures for the quarter ended June 30, 2011.

Notes
Totals may not sum due to rounding.
[1] Capital is defined as stockholders' equity. Available capital is defined as beginning capital plus Treasury draw related to prior quarter's deficit.
[2] Represents net income (loss) plus total other comprehensive income (loss) by segment. Freddie Mac includes net interest income on investments in multifamily loans, net interest income on commercial mortgage-backed securities, and non-interest rate risk-related unrealized gains (losses) on commercial mortgage backed securities in Multifamily comprehensive income, while Fannie Mae includes these items in Investments comprehensive income.
[3] Reflects requested Treasury draws related to current quarter deficit, to be received during the next quarter. Enterprises' draw requests are rounded up to the nearest $1 million.

4. Single-Family Credit Guarantee Segment Results

4.1 Single-Family Credit Guarantee Segment Results

- Losses from the Single-Family Credit Guarantee segment continued for the first half of 2011 primarily driven by credit-related expenses.

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

	Fannie Mae					Freddie Mac					Combined
	2008	2009	2010	YTD 2Q11	Total	2008	2009	2010	YTD 2Q11	Total	2008 - 2Q11
Revenue[1]	$9	$9	$2	$2	$23	$5	$4	$5	$2	$17	$39
Provision for credit losses[2]	(26)	(50)	(25)	(17)	(117)	(16)	(29)	(19)	(5)	(69)	(187)
Foreclosed Property Expenses	(2)	(1)	(2)	(0)	(4)	(1)	(0)	(1)	(0)	(2)	(7)
Credit-related expenses	(28)	(51)	(26)	(17)	(122)	(17)	(29)	(19)	(5)	(72)	(194)
SOP 03-3 Losses[3]	(2)	(20)	(0)	(0)	(23)	(2)	(5)	(0)	(0)	(6)	(29)
Other expenses[4]	(2)	(3)	(2)	(1)	(8)	(1)	(1)	(2)	(1)	(5)	(14)
Pre-tax income (loss)	(22)	(65)	(27)	(16)	(130)	(15)	(31)	(17)	(4)	(67)	(197)
(Provision) benefit for taxes	(5)	1	0	0	(3)	(5)	4	1	(0)	(1)	(4)
Net income (loss)	($27)	($64)	($27)	($16)	($133)	($20)	($27)	($16)	($4)	($68)	($201)
Other Comprehensive Income	-	0	0	-	0	-	0	0	(0)	0	0
Total Comprehensive Income[5]	($27)	($64)	($27)	($16)	($133)	($20)	($27)	($16)	($4)	($68)	($201)

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

Notes
Totals may not sum due to rounding.
[1] Consists of guarantee fee income, trust management income, net interest income, and other income. Guarantee fee revenue of $3.8 billion for Fannie Mae year-to-date was offset by net interest expense of $1.6 billion primarily related to interest income not recognized for non-accrual loans.
[2] The provision for credit losses is the recognition of estimated incurred losses and increases the loan loss reserve. Fannie Mae's figures have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts.
[3] Losses on credit-impaired loans acquired from MBS/PC Trusts.
[4] Consists of investment gains (losses), fair value losses (Fannie Mae), administrative expenses, other expenses, and at Freddie Mac, segment adjustments.
[5] Represents segment earnings (loss) and, for periods after 2008, total comprehensive income (loss), net of taxes, for the Single-Family Credit Guarantee Segment.

4.2 Loan Loss Reserves

- Fannie Mae's loan loss reserves increased during the second quarter of 2011, while Freddie Mac's declined slightly. Differences in the direction of loss reserves in the second quarter of 2011 stem from differences in the size and credit quality of the Enterprises' single-family guarantee portfolios. Fannie Mae's single-family guarantee portfolio is larger than Freddie Mac's and has higher serious delinquency rates.

Figure 4.2 Loan Loss Reserves *($ in billions)*

	Fannie Mae					Freddie Mac				
Single-Family Loss Reserve	**2008**	**2009**	**2010**	**YTD 2Q11**	**Total**	**2008**	**2009**	**2010**	**YTD 2Q11**	**Total**
Beginning balance[1]	$3	$24	$62	$60		$3	$15	$33	$39	
Provision for credit losses[2,3]	26	50	25	17	117	16	29	19	5	69
Charge-offs, net[3]	(5)	(13)	(21)	(9)	(48)	(2)	(7)	(13)	(6)	(28)
Adoption of Accounting Standards[1]	-	-	(11)	0		-	-	(0)	-	
Other	0	0	5	1		(1)	(4)	0	(0)	
Ending balance[1]	$24	$62	$60	$69		$15	$33	$39	$38	
Credit Losses - Single-Family										
Charge-offs[3]	$5	$13	$21	$9	$48	$2	$7	$13	$6	$28
Other[4]	0	0	0	0	0	0	0	1	0	1
Foreclosed Property Expense	2	1	2	0	4	1	0	1	0	2
Total[3]	$6	$13	$23	$9	$52	$4	$8	$14	$6	$32

Sources:
SEC disclosures for the relevant time periods.

Notes
Totals may not sum due to rounding.
[1] Fannie Mae's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and allowance for preforeclosure property taxes and insurance receivable. Freddie Mac's loan loss reserve excludes amounts related to the allowance for accrued interest receivable and forgone interest on loans placed on non-accrual status.
[2] Freddie Mac's figures represent Segment Earnings provision for credit losses, which is generally higher than that recorded under GAAP, primarily due to recognized provision associated with forgone interest income on loans placed on non-accrual status, which is not recognized under GAAP.
[3] Fannie Mae's provision for credit losses have been adjusted to exclude losses on credit-impaired loans acquired from MBS trusts. Additionally, the effect of losses from credit-impaired loans acquired from MBS trusts on charge-offs and foreclosed property expense has been reflected as an adjustment to total credit losses and charge-offs, net.
[4] Freddie Mac's figures include charge-offs related to certain loans purchased under financial guarantees.

4.3 Credit Losses

- Non-traditional and higher-risk mortgages concentrated in the 2006 and 2007 vintages, and mortgages originated in California, Florida, Arizona and Nevada continue to account for a disproportionate share of credit losses (charge-offs and foreclosed property expenses). However, the proportion of losses coming from non-traditional products continues to trend downward.

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

	Fannie Mae					Freddie Mac				
	% of UPB as of Dec 31, 2008[1]	2008	2009	2010	YTD 2Q11	% of UPB as of Dec 31, 2008[1]	2008	2009	2010	YTD 2Q11
by State										
California	16%	25%	24%	23%	31%	14%	30%	32%	26%	32%
Florida	7%	11%	16%	18%	7%	7%	10%	15%	19%	12%
Arizona	3%	8%	11%	10%	15%	3%	9%	11%	11%	12%
Nevada	1%	5%	7%	6%	11%	1%	4%	6%	6%	6%
by Product[2]										
Alt-A	11%	46%	40%	33%	30%	10%	50%	44%	37%	30%
Interest-Only	8%	34%	33%	29%	28%	9%	50%	47%	37%	32%
by Vintage										
2006	14%	35%	31%	29%	30%	15%	41%	35%	30%	29%
2007	20%	28%	36%	36%	29%	19%	25%	36%	34%	37%
2008	16%	1%	5%	7%	4%	15%	0%	5%	7%	8%
2009	N/A	N/A	0%	0%	1%	N/A	N/A	0%	0%	1%

Notes
[1] Represents each category's share of the respective Enterprise's single-family book of business, which is based on the unpaid principal balance of all single-family mortgages held by the Enterprises and those underlying MBS/PCs as of December 31, 2008. Freddie Mac's figures include loans held by the company underlying structured securities less structured securities backed by Ginnie Mae certificates.
[2] Product categories overlap.

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

5. Investments and Capital Markets Segment Results

5.1 Investments and Capital Markets Segment Results

- The Investments and Capital Markets segment was a positive contributor to capital for the first half of 2011. Funding costs remained low as a result of the interest rate environment and the pricing of private-label securities improved.

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

	Fannie Mae					Freddie Mac					Combined
	2008	2009	2010	YTD 2Q11	Total	2008	2009	2010	YTD 2Q11	Total	2008 - 2Q11
Revenue[1]	$8	$13	$13	$7	$41	$3	$8	$6	$3	$21	$62
Derivatives gains (losses)	(15)	(6)	(3)	(2)	(26)	(13)		(2)	(1)	(11)	(37)
Trading gains (losses)	(7)	4	3	0	0	1	5	(1)	0	5	5
Other gains (losses)[2]	2	1	4	2	8	2	(0)	1	0	3	11
Other-than-temporary impairments	(7)	(10)	(1)	(0)	(18)	5 (17)	(10)	(4)	(1)	(32)	(50)
Other expenses[3]	(1)	(1)	(0)	(0)	(2)	(2)	(1)	1	0	(1)	(3)
Pre-tax income (loss)	(21)		16	7	3	(26)		1	2	(16)	(13)
(Provision) benefit for taxes[4]	(9)	(0)	0	0	(9)	(2)	(1)	0	0	(2)	(11)
Net income (loss)	($29) 1	$1	$16	$7	($5)	($28) 7	$6	$1	$2	($18)	($24)
Unrealized gains (losses) on AFS[5]	(6)	11	4	0	9	(20)	11	10	2	3	12
Accounting change for Impairments	0	3	0	0	3	0	5	0	0	5	8
Total Comprehensive Income	($35)	$15	$20	$7	$7	($48)	$23	$11	$4	($10)	($3)

Notes
Totals may not sum due to rounding.
[1] Consists of guarantee fee expense, trust management income, net interest income, and other income.
[2] Figures consist of debt extinguishment losses, debt foreign exchange gains (losses), debt fair-value losses, investment gains (losses), and hedged mortgage assets gains, net.
[3] Consists of administrative expenses, other expenses, and at Freddie Mac, segment adjustments.
[4] Includes extraordinary losses /noncontrolling interest.
[5] Amount for 2008 includes consolidated changes in unrealized gains (losses) on available for sale securities, net of taxes. Effective April 2009, includes adjustments for other-than-temporary impairments, net of taxes, included in accumulated other comprehensive income due to a change in accounting standards for impairments. At Freddie Mac, amount also includes the change in unrealized gains (losses), net of taxes, related to cash flow hedge relationships.

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

5.2 Security Impairments

- For the first half of 2011, annualized security impairments taken in the first half of 2011 are below 2010 levels for both Enterprises. Freddie Mac's non-agency portfolio is larger than Fannie Mae's, generally causing higher levels of security impairments.

Figure 5.2 Security Impairments *($ in billions)*

Fannie Mae	2008			2009			2010			YTD 2Q11			
Vintage[1]	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	Total 2008-2Q11
Alt-A/Option ARM Alt-A	$3.0	$1.8	$4.8	$1.7	$2.3	$4.0	$0.2	$0.1	$0.3	$0.1	$0.0	$0.1	$9.2
Subprime	1.9	-	1.9	5.6	0.1	5.7	0.4	0.0	0.4	0.0	0.0	-	8.0
Other	0.0	0.2	0.2	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Total[2]	$4.9	$2.0	$7.0	$7.3	$2.6	$9.9	$0.6	$0.2	$0.7	$0.1	$0.0	$0.1	$17.7

Freddie Mac	2008			2009			2010			YTD 2Q11			
Vintage[1]	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	2006 & 2007	Other vintages	Total	Total 2008-2Q11
Alt-A	$2.1	$1.8	$4.0	$0.9	$0.8	$1.7	$0.5	$0.2	$0.7	$0.0	$0.0	$0.1	$6.5
Subprime	3.4	0.2	3.6	6.4	0.1	6.5	1.7	0.0	1.8	0.8	0.0	0.8	12.7
CMBS	-	-	-	0.1	0.0	0.1	0.1	0.0	0.1	0.3	0.1	0.3	0.5
Option ARM	6.0	1.6	7.6	1.4	0.4	1.7	1.2	0.2	1.4	0.3	0.1	0.3	11.1
Other	1.1	0.4	1.4	0.8	0.1	0.9	0.3	0.1	0.3	0.0	0.0	0.0	2.7
Total[2]	$12.6	$4.0	$16.6	$9.6	$1.5	$11.0	$3.8	$0.5	$4.3	$1.4	$0.2	$1.5	$33.4

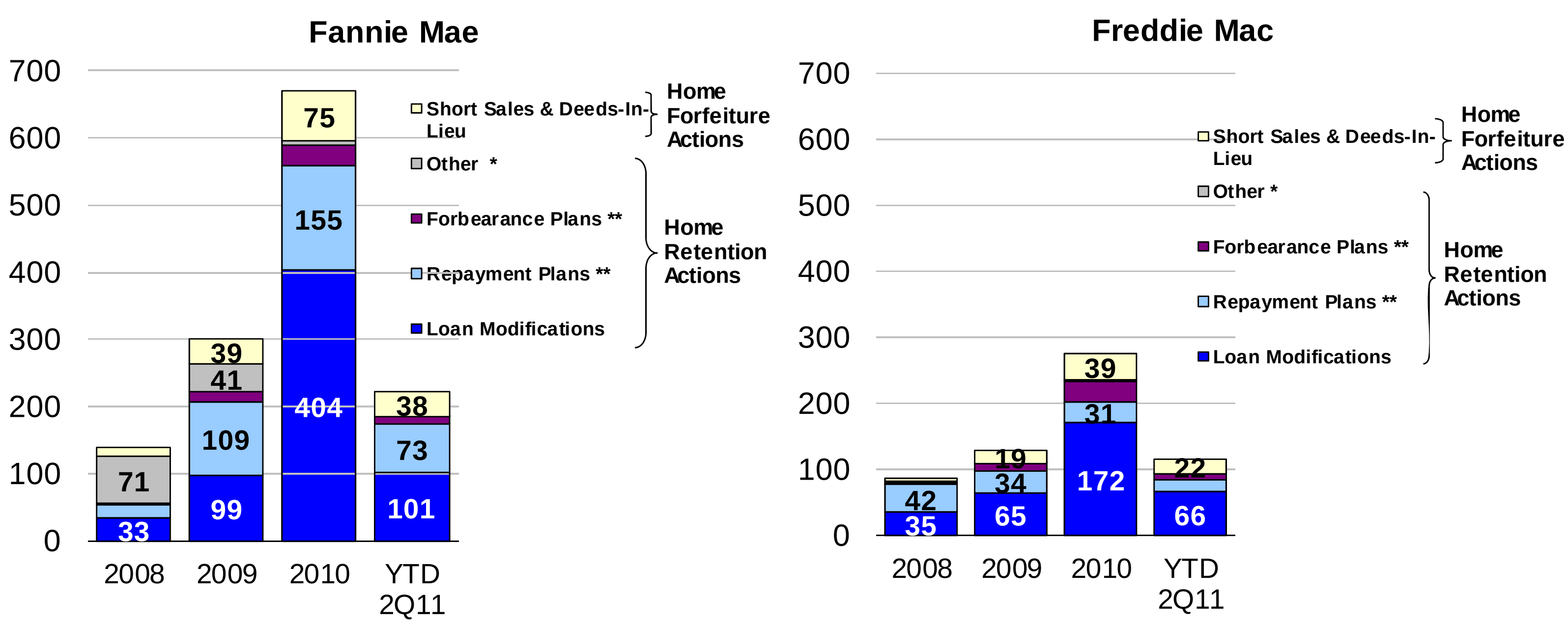
Notes
Totals may not sum due to rounding.
[1] Vintage of private-label securities is based on security issue date.
[2] The adoption of an accounting standard for impairments in April 2009 required the Enterprises to begin recognizing only the credit portion of impairments in their statements of income and comprehensive income. This accounting standard did not require the Enterprises to revise previously recorded amounts in their statements of income and comprehensive income but did result in an equity increase of $5 billion and $3 billion for Freddie Mac and Fannie Mae, respectively, which is not reflected in Figure 5.2. For the full year of 2008 and a portion of 2009, amounts include both credit and non-credit-related security impairments.

Sources:
Fannie Mae and Freddie Mac management reports.

6. Loss Mitigation Activity

- The Enterprises have traditionally worked with delinquent borrowers to mitigate credit losses in situations where the borrower demonstrates the willingness and ability to cure the delinquency. Loss mitigation actions include home retention actions (loan modifications, repayment plans and forbearance plans), and home forfeiture actions (short sales and deeds-in-lieu).
- In 2010, loss mitigation activity increased substantially for all home retention actions with the greatest increase attributable to increases in loan modifications. Loan modifications continued to be the dominant type of loss mitigation action completed in the first half of 2011.
- More information on the Enterprises' loss mitigation activities can be found in FHFA's Second Quarter 2011 Foreclosure Prevention & Refinance Report.

Figure 6 Enterprises' Foreclosure Prevention Actions *(Number of loans in thousands)*



* Consists of HomeSaver Advance (Fannie Mae) and charge-offs in lieu of foreclosure.
** Includes loans that were 30-plus days delinquent at initiation of the plan.

Completed forbearance plans exclude Home Affordable Modification Program loans.

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

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

- FHFA published initial projections of the Enterprises' financial performance in October 2010. The purpose and approach of these projections can be found in FHFA's Projections of the Enterprises' Financial Performance, October 2010.
- October 2010 projections were not expected outcomes, but rather modeled projections in response to "what if" exercises based on assumptions about Enterprise operations, financial market conditions, and house prices.
- The combined projected Treasury draws for the Enterprises for the second half of 2010 and the first half of 2011 ranged from $39 billion to $93 billion. The actual combined Treasury draw for the second half of 2010 and the first half of 2011 was $21 billion.
- The primary drivers of the difference were fewer actual seriously delinquent loans and mortgage defaults than projected. In addition, actual prices of private-label securities were higher than projected, which also contributed to the difference.

Figure 7.1 Actual versus Projected Treasury Draws through 2Q11 *($ in billions)*

	Cumulative Treasury Draw	Projected Draw through 2Q11 Scenario 1		Projected Draw through 2Q11 Scenario 2		Projected Draw through 2Q11 Scenario 3		Actual Draw through 2Q11	
	As of 6/30/2010	Additional Draw	Cumulative Draw as of 6/30/2011	Additional Draw	Cumulative Draw as of 6/30/2011	Additional Draw	Cumulative Draw as of 6/30/2011	Additional Draw	Cumulative Draw as of 6/30/2011
Fannie Mae	$85	$31	$116	$38	$123	$61	$146	$19	$104
Freddie Mac	63	8	71	12	75	32	95	2	65
Total	$148	$39	$187	$50	$198	$93	$241	$21	$169

Comparison of Actual Results to Projections of the Enterprises' Financial Performance (continued)

- The observed pace of mortgage defaults was generally slower than expected given continued weakness in the housing and mortgage markets.
  - A factor contributing to fewer mortgage defaults is the delay in foreclosures triggered by the discovery of deficiencies in servicers' foreclosure processes.
- Loss reserves were lower than previously projected, improving the financial performance of the Enterprises.
  - Many borrowers with high current LTV ratios have transitioned to delinquency at a slower pace than previous projections, which were based on historical experience.
  - The performance of modified loans through 2010 is better than previously projected, though future performance of modified loans could be better or worse.

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

- Mortgage defaults pushed out to later periods could reduce projected losses if home prices improve or increase projected losses if home prices worsen.
- The Enterprises' future financial performance is heavily dependent on the performance of the U.S. housing market. Trends observed in the second half of 2010 and the first half of 2011 should not be used to extrapolate future projections.