In 1995, Fannie Mae & Freddie Mac with initial shareholders of Mortgage Electronic Registration Systems, Inc., now known as, MERSCORP Holdings, Inc. (not the Mortgage Electronic Registration Systems, Inc. found in the mortgage). The entity in the mortgages is a separate and distinct corporation from the original corporation that underwent a merger several name changes until it ended up as MERSCORP Holdings, Inc. which owns and operates the MERS® System.

March 3, 2011: "MERS, founded 16 years ago by Fannie Mae, Freddie Mac and big banks like Bank of America and JPMorgan Chase"
http://www.nytimes.com/2011/03/06/business/06mers.html

"It is a collaboration of top mortgage servicers, mortgage insurers and Fannie Mae and Freddie Mac, the government entities that hold many of the country's mortgages.

"The mortgage industry created MERS to allow financial institutions to evade county recording fees, avoid the need to publicly record mortgage transfers and facilitate the rapid sale and securitization of mortgages en masse," Mr. Schneiderman said."

http://www.nytimes.com/2012/02/04/business/new-york-suing-3-banks-over-mortgage-database.html

Let me preface here that Fannie Mae created and patented the 1003 loan application software program in Dec. 2005 and allowed all banks to use it with no licensing fees. https://deadlyclear.wordpress.com/2012/04/18/behind-the-securitization-curtain-21st-century-mortgage-casino/

The GSEs' software programs were extremely sophisticated and could easily detect fraud from all angles, mortgage brokers, pretender lenders, the borrowers – and apparently intentionally relaxed their own safeguards.

On **September 6, 2008**, FHFA placed Freddie Mac into conservatorship, and as conservator, succeeded to all rights, titles, powers and privileges of Freddie Mac and its shareholders, officers, and directors with respect to Freddie Mac and its assets. The Treasury Department has provided $189.5 billion in support, which includes an initial placement of $1 billion in both Fannie Mae and Freddie Mac at the time of the conservatorships and an additional cumulative $187.5 billion investment from the Treasury Department. https://www.fhfa.gov/Conservatorship/pages/history-of-fannie-mae--freddie-conservatorships.aspx

Washington, D.C., ***Dec. 16, 2011*** — The Securities and Exchange Commission today charged six former top executives of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) with securities fraud, alleging they knew and approved of misleading statements claiming the companies had minimal holdings of higher-risk mortgage loans, including subprime loans.

Fannie Mae and Freddie Mac each entered into a Non-Prosecution Agreement with the Commission in which each company agreed to accept responsibility for its conduct and not dispute, contest, or contradict the contents of an agreed-upon Statement of Facts without admitting nor

denying liability. Each also agreed to cooperate with the Commission's litigation against the former executives. In entering into these Agreements, the Commission considered the unique circumstances presented by the companies' current status, including the financial support provided to the companies by the U.S. Treasury, the role of the Federal Housing Finance Agency as conservator of each company, and the costs that may be imposed on U.S. taxpayers.

Non-Prosecution Agreements **December 13, 2011**

COMPLAINTS alleged:

“1. This action arises out of a series of **materially false and misleading public disclosures** by the **Federal National Mortgage Association** ("**Fannie Mae"** or the "Company") and certain of its former senior executives concerning the Company's exposure to subprime mortgage and reduced documentation Alt-A loans. Eager to promote the impression that Fannie Mae had limited exposure to· subprime and Alt-A loans during a period of heightened investor interest in the credit risks associated with these loans, Fannie Mae and its executives misled investors into believing that the Company had far less exposure to these riskier mortgages than in fact existed.

1. This action arises out of a **series of materially false and misleading public disclosures by the Federal Home Loan Mortgage Corporation** (**"Freddie Mac**" or the "Company") and certain of its senior executives relating to the exposure of Freddie Mac's largest business segment - Single Family Guarantee - to subprime mortgage loans.” **December 14, 2011**

- SEC complaint vs. Freddie Mac executives
- SEC complaint vs. Fannie Mae executives
- Non-Prosecution Agreement - Freddie Mac
- Non-Prosecution Agreement - Fannie Mae

On February 24, 2012, a civil fraud action by the United States against Defendants Bank of America Corporation and Bank of America N.A. (“BANA”), Countrywide Financial Corporation (“CFC”), Countrywide Bank, FSB (“Countrywide Bank”), and Countrywide Home Loans, Inc., and Rebecca Mairone (“Mairone”) U.S. District Court Southern District of New York, CIVIL DOCKET FOR CASE #: 1:12-cv-01422-JSR to recover damages and penalties arising from a scheme to defraud Fannie and Freddie in connection with Countrywide's residential mortgage lending business. The Department of Justice (“DOJ”) action sought to recover civil penalties under the Financial Institutions Reform, Recovery, and Enforcement Act, 12 U.S.C. § 1833a (“FIRREA”). **At the same time a motion to seal all the documents was granted.**

This was the first civil fraud suit brought by the Department of Justice concerning mortgage loans sold to Fannie Mae or Freddie Mac.

The DOJ issued a press release: “Specifically, the Complaint alleges that from at least 2007 through 2009, COUNTRYWIDE, and later BANK OF AMERICA after acquiring COUNTRYWIDE in 2008, implemented a new loan origination process called the “Hustle,” which was intentionally designed to process loans at high speed and without quality checkpoints, and

which generated thousands of fraudulent and otherwise defective residential mortgage loans sold to Fannie Mae and Freddie Mac that later defaulted, causing over $1 billion dollars in losses and countless foreclosures.

> **Manhattan U.S. Attorney Preet Bharara said:** "For the sixth time in less than 18 months, this Office has been compelled to sue a major U.S. bank for reckless mortgage practices in the lead-up to the financial crisis. The fraudulent conduct alleged in today's complaint was spectacularly brazen in scope. As alleged, through a program aptly named 'the Hustle,' Countrywide and Bank of America made disastrously bad loans and stuck taxpayers with the bill. As described, Countrywide and Bank of America systematically removed every check in favor of its own balance – they cast aside underwriters, eliminated quality controls, incentivized unqualified personnel to cut corners, and concealed the resulting defects. These toxic products were then sold to the government sponsored enterprises as good loans. This lawsuit should send another clear message that reckless lending practices will not be tolerated.""

From at least 2005 through mid-2008, Fannie served as Countrywide's primary GSE "alliance partner." Under this arrangement, which Bank of America later continued, Countrywide pre-sold most of its mortgage inventory directly to Fannie. Although CHL appeared on the mortgage and note as the alleged "lender" using Mortgage Electronic Registration Systems, Inc. as a nominee, the actual pre-existing funding investor working through investment banks, was Fannie. The GSEs then either held the loans in their investment portfolios or bundle them into their own mortgage-backed securities ("MBS") that they sold to investors. Pursuant to **Fannie's 2008 Servicing Guidelines**: **"Fannie Mae is at all times the owner of the mortgage note, whether the note is in Fannie Mae's portfolio or whether owned as trustee, for example, as trustee for an MBS trust. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, except in the limited circumstances."**

Through the first three quarters of 2009, Fannie greatly increased the amount of repurchase claims submitted to Bank of America and increased the claim rate per loan default at which it was submitting claims. The claims continued to increase thereafter. Fannie also became more restrictive in rescinding those requests.

The DOJ complaint stated that Countrywide knew that its loans violated GSE requirements "and knowingly churned out loans with escalating levels of fraud and other serious material defects and sold them to the GSEs." According to Countrywide's own internal quality control reviews, more than one-third of the loans it originated were ineligible for sale to investors like the GSEs.

Although on January 7, 2013, after the DOJ action was filed, Bank of America announced that it agreed to pay Fannie billions of dollars to resolve outstanding repurchase requests stemming from loans originated between 2001 and 2008, its settlement offer could not repair the damage to the GSEs, the federally-insured institutions that failed as a result of the GSEs' conservatorship, or the federal government from Defendants' fraudulent origination and sale of defective loans.

On October 15, 2013, after a four-week trial, a federal jury in New York found the banks liable on one civil fraud charge. Countrywide originated shoddy home loans in a process called "Hustle" and sold them to government mortgage giants Fannie Mae and Freddie Mac, the government said. It wasn't until July 2014 that the court finally settled on the financial penalty, hitting BofA for $1.27 billion. The bank immediately appealed this judgment.

As of August 21, 2014, **'Bank of America Agreed to Pay $16.65 Billion in Historic Justice Department Settlement for Financial Fraud Leading up to and During the Financial Crisis pursuant to the press release by the United States Attorney's Office, Southern District of New York.'** Among other distributions Bank of America would provide $7 billion in the form of relief to aid hundreds of thousands of consumers harmed by the financial crisis precipitated by the unlawful conduct of Bank of America, Merrill HOMEOWNER #1 and Countrywide. HOMEOWNER #1 should have been one of those consumers. That relief was to take various forms, including principal reduction loan modifications that result in numerous homeowners no longer being underwater on their mortgages and finally having substantial equity in their homes.

A federal appeals three-judge panel ruled on May 23, 2016 to overturn the $1.27 billion penalty the bank had been ordered to pay in the Hustle case. The judges said that while Countrywide employees may have sold loans in 2007 and 2008 that were not of the quality that was promised in the contracts with Fannie and Freddie, there was no evidence that these sales — an element of a loan program at Countrywide that was known informally as Hustle — were part of a deliberate intentional deception. **Complicit, maybe? The Bank of America $16.65 Billion Settlement with the DOJ remained intact.**

January 7, 2013: "Newscast Media CHARLOTTE, N.C—Bank of America Corp has announced a settlement deal with Fannie Mae of $11.6 billion for bad mortgages of nearly a decade's worth of home loans, as a result of Bank of America's acquisition of Countrywide Financial Corp. five years ago.

The agreement is also separate from an $8.5 billion foreclosure-abuse settlement between regulators and 10 banks, including Bank of America, additionally announced Monday. That pact is in addition to another settlement reached last February, where five large banks, including Bank of America, agreed to a $25 billion settlement with the Obama administration and 49 state attorneys general.

Under the deal announced Monday, the bank will pay $3.6 billion to Fannie Mae and buy back $6.75 billion in loans that the North Carolina-based bank and its Countrywide banking unit sold to the government agency from Jan. 1, 2000 through Dec. 31, 2008, **according to the Washington Post.**" http://newscastmedia.com/fanniemae-bankofamerica.htm

December 6, 2013, — PNC Financial Services Group Inc. on Friday announced an $89 million settlement with Freddie Mac, making it the latest bank and the second within a week to bring to a close mortgage repurchase claims with the government-controlled firm.

Friday's settlement comes on the heels of a **$404 million agreement** Freddie Mac reached with Bank of America Corp. on **Dec. 2, 2013** over mortgages the Charlotte-based bank sold between January 2000 and December 2009.

Fannie Mae interest in loan:

Extracted from Fannie Mae Guidelines, Announcement 08-12 dated May 23, 2008:

"New *Servicing Guide* Section

***Servicing Guide,* Part I, Chapter 2, Section 202.06, Note Holder Status for Legal Proceedings Conducted in the Servicer's Name**

Fannie Mae is at all times the owner of the mortgage note, whether the note is in Fannie Mae's portfolio or whether owned as trustee, for example, as trustee for an MBS trust. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, except in the limited circumstances expressly described below. Fannie Mae may have direct possession of the note or a custodian may have custody of the note. If Fannie Mae possesses the note through a document custodian, the document custodian has custody of the note for Fannie Mae's exclusive use and benefit." [1]

Steele, Ally Coll. "Fannie, Freddie, and Fairness: Judicial Review of Federal Conservators." *Harv. J. on Legis.* 53 (2016): 417.

"In an effort to stabilize the collapsing economy, the federal government spent an estimated $16 trillion to "bail out" hundreds of large private institutions—ranging from banks, to auto manufacturers, to insurance companies. As a part of this effort, Congress enacted the 2008 Housing and Economic Recovery Act ("HERA"), pursuant to which the federal government became the conservator of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (together, "the GSEs"). Subsequently, the government provided Fannie Mae and Freddie Mac with a combined $187.5 billion in order to ensure the solvency of the failing housing market underlying the crisis.

II. THE GOVERNMENT TAKEOVER OF FANNIE MAE AND FREDDIE MAC AND THE ENACTMENT OF THE NET SWEEP AMENDMENT

Fannie Mae and Freddie Mac are GSEs, initially chartered by Congress to increase liquidity in the residential mortgage market. These GSEs raise money—from sources such as pension and mutual funds—in order to buy mortgages so that lenders can then use the freed-up capital for additional loans to borrowers. Although Congress created the GSEs, they are considered "government-sponsored," rather than "government-owned," because they have functioned as public companies since 1989. While the mortgages purchased by Fannie Mae and Freddie Mac are not officially government insured, a perception exists that they "carry an implicit government guarantee [because] the companies are so large that the government would never let them fail." At the time of HERA's enactment, the GSEs were owned by preferred and common stockholders and listed on the New York Stock Exchange. In their corporate bylaws, Fannie Mae elected to follow Delaware corporate law, while Freddie Mac elected to follow the corporate law of Virginia, where its principal office is located.

Anticipating the severe ramifications a Fannie Mae or Freddie Mac collapse would have on the fragile housing market—and therefore on the U.S. economy as a whole—Congress passed

[1] Fannie Mae Guidelines, Announcement 08-12 dated May 23, 2008 found at: https://www.fanniemae.com/content/announcement/0812.pdf

HERA in July 2008. Modeled after the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), enacted in response to the savings and loan crisis of the 1980s, HERA established the independent Federal Housing and Finance Agency ("FHFA"), and tasked it with overseeing and regulating Fannie Mae and Freddie Mac.[2] HERA modeled FHFA's regulatory power over the GSEs after those granted in FIRREA to the Federal Deposit Insurance Corporation ("FDIC") to assume control of failing banks and financial institutions.[3] In September 2008, pursuant to this authority, FHFA placed Fannie Mae and Freddie Mac into conservatorship, where they remain today.[4]

As conservator, **FHFA assumed "all rights, titles, powers, and privileges" belonging to the GSEs, as well as their stockholders, officers, or directors.**[5]

Extracted from Fannie Mae Single Family 2012 Servicing Guide: [6]

Chapter 4. Transfers of Ownership

When a mortgage loan does not contain a due-on-sale (or due-on-transfer) provision, ownership of the security property can be transferred without restriction. However, when the mortgage loan includes a due-on-sale (or due-on-transfer) provision, that provision may either prohibit a transfer of ownership of the mortgage loan altogether or allow it only under certain conditions. In addition, the ability to enforce the due-on-sale (or due-on-transfer) provision may depend on whether the mortgage loan is a whole mortgage loan, a participation pool mortgage loan, or an MBS mortgage loan.

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[2] *See* 12 U.S.C. § 4511 (2012).

[3] *See* HERA, 12 U.S.C. § 4617 (2012); Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), 12 U.S.C. § 1821 (2012). *See also* CONG. RESEARCH SERV., RL34657, FINANCIAL INSTITUTION INSOLVENCY: FEDERAL AUTHORITY OVER FANNIE MAE, FREDDIE MAC, AND DEPOSITORY INSTITUTIONS 1, 6 (Sept. 10, 2008) (noting that HERA contains "extensive provisions providing the FHFA with powers that substantially parallel those accorded the . . . FDIC . . . to deal with every aspect of insolvencies of any bank or thrift institution that holds federal insured deposits").

[4] *See FHFA as Conservator of Fannie Mae and Freddie Mac*, FED. HOUS. & FIN. AGENCY, https://www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx

[5] *See* 12 U.S.C. § 4617 (2012). The full text of the provision reads: "The Agency shall, as conservator or receiver, and by operation of law, immediately succeed to—(i) all rights, titles, powers, and privileges of the regulated entity, and of any stockholder, officer, or director of such regulated entity with respect to the regulated entity and the assets of the regulated entity; and (ii) title to the books, records, and assets of any other legal custodian of such regulated entity."

[6] Fannie Mae Single Family 2012 Servicing Guide found at: https://www.fanniemae.com/content/guide/svc031412.pdf

When the servicer receives a request for a statement of account in connection with a possible transfer of ownership for a property—or learns after the fact that a transfer has occurred—it must review the mortgage instruments to determine whether the mortgage loan is subject to enforcement of the due-on-sale (or due-on-transfer) provision. When the servicer issues the statement of account, it should clearly state Fannie Mae's right to enforce the due-on-sale provision (if applicable), describe Fannie Mae's policy, and point out any exceptions or limiting conditions to the policy. In addition, the servicer should establish procedures to monitor requests for changes in mailing addresses for the borrower or changes of the borrower's name or mailing address on hazard insurance policies or tax notices. The servicer should investigate any questionable changes to determine whether a transfer of ownership has occurred, and whether any action needs to be taken to enforce the due-on-sale provision.

Section 502
Contested Routine Legal Actions

A servicer may ***not*** initiate litigation on Fannie Mae's behalf, other than for routine foreclosures and possessory actions for certain mortgages (as provided for in *Part VIII, Chapter 1, Foreclosures*), unless it obtains prior written consent from the regional counsel in its lead Fannie Mae regional office. This will enable Fannie Mae to concur in the necessity of the action and selection of the legal counsel, as well as to approve the requested legal fees and costs.

When a servicer receives notice of a nonroutine legal action that involves a Fannie Mae–owned or Fannie Mae–securitized mortgage or that will otherwise affect Fannie Mae's interests—regardless of whether Fannie Mae is named as a party to the action—the servicer must immediately contact Fannie Mae via e-mail to nonroutine_litigation@fanniemae.com to seek approval for any decisions that need to be made about the conduct of the litigation, including the choice of defense counsel, a litigation strategy, and the settlement terms. Fannie Mae reserves the right to select counsel to handle nonroutine litigation and may select attorneys who are not on the *Retained Attorney List*.

"In order to provide Fannie Mae and Freddie Mac with the capital necessary to ensure their stability, HERA also granted the Treasury Department temporary authorization to purchase stock in the GSEs. Just one day after FHFA assumed control of the GSEs, Treasury acted on this authority by entering into a Preferred Stock Purchase Agreement ("PSPA") with the GSEs through their new conservator, FHFA. In exchange for Treasury's infusion of $100 billion in capital support, the PSPA provided Treasury with, among other things, $1 billion in senior preferred stock, an annual 10% fixed-rate dividend on the investment, warrants for 79.9% of the GSEs' common stock, and control over the management and boards of the GSEs.

In May 2009, Treasury and FHFA amended the terms of the PSPA for the first time, raising the cap on available Treasury funds from $100 billion to $200 billion. Six months later, in December 2009, a second amendment to the PSPA removed the cap entirely through 2012. The legality of these first two amendments to the PSPA has not been challenged, nor have the original terms of the PSPA.

However, the third amendment to the agreement—entered into by Treasury and FHFA on August 17, 2012, approximately four years into conservatorship—raises serious legal and policy questions.

Important to the question of derivative suit standing, both HERA and FIRREA contain provisions stating that, when the government places an institution into conservatorship, the conservator succeeds to all rights and privileges owned by any stockholder of the entity.[7] In a series of legal decisions

following the enactment of FIRREA, most courts concluded that this provision in FIRREA generally bars shareholder derivative suits during conservatorship by transferring shareholders' right to sue derivatively—i.e., to sue on behalf of the institution—exclusively to the FDIC as conservator.[8]

Courts applying HERA have followed this precedent in the context of the GSEs, concluding that HERA's language also prohibits shareholders from suing derivatively on behalf of the GSEs during conservatorship.[9] As the D.C. Circuit unambiguously held, "this language plainly transfers shareholders' ability to bring derivative suits—a 'right[ ], title[ ], power[ ], [or] privilege[ ]'—to FHFA." Other courts considering the question have concluded that "[t]his language clearly demonstrates Congressional intent to transfer as much control of Freddie Mac as possible to the FHFA, including any right to sue on behalf of the corporation," and that "[i]t is undisputed that the plain language of **HERA provides that only the Conservator may bring suit on behalf of Fannie Mae.**"[10] It is therefore likely that the language of HERA generally bars derivative suits during conservatorship. However, a key exception to this rule has been recognized

[7] *See* 12 U.S.C. § 4617(b)(2)(A)(i) (2012) (stating that the FHFA as conservator succeeds to "all rights, titles, powers, and privileges of the regulated entity, and of any stockholder, officer, or director of such regulated entity"); 12 U.S.C. § 1821(d)(2)(A)(i) (2012) (stating that the FDIC as conservator succeeds to "all rights, titles, powers, and privileges of the insured depository institution, and of any stockholder, member, accountholder, depositor, officer, or director of such institution").

[8] *See, e.g.*, Pareto v. FDIC, 139 F.3d 696, 700 (9th Cir. 1998); FDIC v. American Cas. Co. of Reading, Pa., 998 F.2d 404, 409 (7th Cir. 1993); Bauer v. Sweeny, 964 F.2d 305, 308 (4th Cir. 1992), *as amended* (Sept. 3, 1992). While courts were not uniform in this interpretation of FIRREA, courts of appeals that held otherwise did so in dicta without much analysis. *See, e.g.*, American Cas. Co. of Reading, Pa. v. FDIC, 39 F.3d 633, 637 (6th Cir. 1994); In re Sunrise Sec. Litig., 916 F.2d 874, 879 (3d Cir. 1990). *See also* Branch v. FDIC, 825 F. Supp. 384, 405 (D. Mass. 1993) ("[The provision] does not alter the settled rule that shareholders of failed national banks may assert derivative claims.").

[9] *See* 12 U.S.C. § 4617(b)(2)(A)(i) (2012).

[10] *Gail C. Sweeney Estate Marital Tr. on behalf of Fed. Nat'l Mortg. Ass'n v. United States Treasury Dep't*, 68 F. Supp. 3d 116, 119 (D.D.C. 2014); *see also* Esther Sadowsky Testamentary Tr. v. Syron, 639 F. Supp. 2d 347, 350 (S.D.N.Y. 2009).

in the context of FIRREA and, if applicable to HERA, could provide an avenue for shareholder relief through derivative actions." [11]

U.S. Attorney Sues Bank of America for Over $1 Billion for Multi-Year Mortgage Fraud Against Government Sponsored Entities Fannie Mae and Freddie Mac

Although HERA provides that only the Conservator may bring suit on behalf of Fannie Mae, a civil fraud action was filed under FIRREA on October 24, 2102 by the United States ("DOJ") against Defendant Bank of America Corporation ("Bank of America") and Bank of America N.A. ("BANA"), which acquired and are the successor to Countrywide Financial Corporation ("Countrywide Financial" or "CFC") and Countrywide Home Loans, Inc. ("Countrywide Home Loans" or "CHL") (collectively referred to herein as "Countrywide") ("DOJ complaint"), to recover damages and penalties arising from a scheme to defraud the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, "government-sponsored enterprises" or "GSEs") in connection with Countrywide's residential mortgage lending business. The documents in this case were sealed at the beginning of the case and most remain sealed.

The DOJ complaint stated that Countrywide knew that its loans violated GSE requirements "and knowingly churned out loans with escalating levels of fraud and other serious material defects and sold them to the GSEs." According to Countrywide's own internal quality control reviews, more than one-third of the loans it originated were ineligible for sale to investors like the GSEs.

From at least 2005 through mid-2008, Fannie Mae served as Countrywide's primary GSE "alliance partner." Under this arrangement, which Bank of America later continued, Countrywide pre-sold most of its mortgage inventory directly to Fannie Mae. Although CHL appeared on the mortgage and note as the alleged "lender" using Mortgage Electronic Registration Systems, Inc. as a nominee, the actual pre-existing funding investor working through investment banks, was Fannie Mae. The GSEs then either held the loans in their investment portfolios or bundle them into their own mortgage-backed securities ("MBS") that they sold to investors. The general public also did not know that Countrywide and Bank of America sold the vast majority of their loans to the GSEs.

Pursuant to Fannie's 2008 Servicing Guidelines: "Fannie Mae is at all times the owner of the mortgage note, whether the note is in Fannie Mae's portfolio or whether owned as trustee, for example, as trustee for an MBS trust. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, except in the limited circumstances."

Not until the DOJ case was partially unsealed exposing the Countrywide / Bank of America "Hustle" schemes and the jury held the defendants accountable for corruption and deceiving the GSEs on October 23, 2013,[12] would it ever have occurred to anyone that someone other than a

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[11] *See* http://harvardjol.com/wp-content/uploads/2016/02/HLL110_crop.pdf

[12] After a jury trial, the jury returned a verdict against defendants, and the district court awarded monetary penalties against the bank defendants in the amount of over $1.2 billion. The district court's principal orders in this case are reported at 961 F. Supp. 2d 598 (2013) (order

plaintiff actually owned the loans and was concealed. Judge Rakoff issued an Order for $1,267,491,770 on July 30, 2014.[13] An appeal followed. Although an appeal was filed, on August 21, 2014 the DOJ released a statement and published documents relating to case and **"Bank of America to Pay $16.65 Billion in Historic Justice Department Settlement for Financial Fraud Leading up to and During the Financial Crisis"** that damaged Fannie and Freddie. Only then was there an admission of fraud and deceit.

"Bank of America and the banks it bought securitized billions of dollars of defective mortgages," said Acting Inspector General Michael P. Stephens of the FHFA-OIG. "Investors, including Fannie Mae and Freddie Mac, suffered enormous losses by purchasing RMBS from Bank of America, Countrywide and Merrill HOMEOWNER #1 not knowing about those defects. Today's settlement is a significant, but by no means final step by FHFA-OIG and its law enforcement partners to hold accountable those who committed acts of fraud and deceit." Excerpt from the DOJ press release of August 21, 2014. [14]

Bank of America made a $16.65 Billion Settlement with the DOJ on August 20, 2014 which still stands. The Second Circuit Court of Appeals – May 23, 2016 Decision on the $1,267,491,770 found that the DOJ had failed to prove intent to defraud; the Order followed on September 1, 2016. However, the Bank of America $16.65 Billion Settlement remained intact.

FANNIE MAE IS A REAL PARTY IN INTEREST with HOMEOWNER EXAMPLE

An issue that evolves from the DOJ complaint reveals facts establishing that CHL and BofA procured for and sold loans directly to the GSEs. At the time of the HOMEOWNER #1 loan in 2007, according to Fannie Mae 2008 Guidelines, Fannie Mae claimed full ownership and possession of the loans.[15] Also found in the Fannie Mae 2007 Annual Report:

"During 2007, approximately 1,000 lenders delivered mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2007, our top five lender customers, in the aggregate, accounted for approximately 56% of our single-family business volume, compared with 51% in 2006.

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denying motion to dismiss); 996 F. Supp. 2d 247 (2014) (order holding that the "affecting" element was established as a matter of law); 33 F. Supp. 3d 494 (2014) (order awarding penalties); and ___ F. Supp. 3d ___, 2015 WL 424428 (Feb. 3, 2015) (order denying post-trial motions).

[13] Statement of Manhattan U.S. Attorney Preet Bharara on the Penalties Imposed By the Court on Countrywide, Bank of America, and Rebecca Mairone For Engaging In Mortgage Fraud Totaling In Excess of One Billion Dollars https://www.justice.gov/usao-sdny/pr/statement-manhattan-us-attorney-preet-bharara-penalties-imposed-court-countrywide-bank

[14] The DOJ August 21, 2014 press release can be found at: https://www.justice.gov/opa/pr/bank-america-pay-1665-billion-historic-justice-department-settlement-financial-fraud-leading

[15] *See* Fannie Mae 2008 Guidelines found at: https://www.fanniemae.com/content/announcement/0812.pdf

Our top customer, Countrywide Financial Corporation (through its subsidiaries), accounted for approximately 28% of our single-family business volume in 2007, compared with 26% in 2006. In January 2008, Bank of America Corporation announced that it had reached an agreement to purchase Countrywide Financial Corporation. Together, Bank of America and Countrywide accounted for approximately 32% of our single-family business volume in 2007. If the merger is completed and the combined company continues to account for the same percentage of our business volume as the two prior companies, Bank of America will become our largest customer. We cannot predict at this time whether or when this merger will be completed and what effect the merger, if completed, will have on our relationship with Countrywide and Bank of America. Due to increasing consolidation within the mortgage industry, as well as a number of mortgage lenders having gone out of business since late 2006, we, as well as our competitors, seek business from a decreasing number of large mortgage lenders. See "Item 1A—Risk Factors" for a discussion of the risks that this customer concentration poses to our business."[16]

In the case of HOMEOWNER #1, Fannie Mae, who it appears [was] at all times the "owner of the mortgage note, whether the note is in Fannie Mae's portfolio or whether owned as trustee," didn't join the foreclosure action until it fictitiously bought the property after the non-judicial auction. Fannie Mae, as the Real Party in Interest,[17] was concealed and this damaged HOMEOWNER #1 because there were various federally sponsored programs available to HOMEOWNER #1 in 2008 – 2012 that could have helped her save her home rather than defending lawsuits, along with Bank of America settlement funds she would have been entitled to share.

The purpose in this explanation is to expose the devious and deceptive CHL behavior that, as the DOJ stated, continued on with Bank of America and "its former and current subsidiaries" which includes BAC Home Loans, LP ("BAC"). In the instant case, it appears BAC and Fannie filed materially false NJF documents, affidavits, Assignment of Mortgage and Mortgagee's Quitclaim Deed Pursuant to Power of Sale in the Hawaii Bureau of Conveyances, their motions, declarations, exhibits and affidavits in Hawaii State Court including, but not limited to, its Plaintiff's Motion for Summary Judgment and Writ of Possession wherein they knowingly concealed the real party in interest, the actual mortgagee, owner and investor Federal National Mortgage Association aka Fannie Mae, throughout the entire non-judicial foreclosure process. Compounding this potential intrinsic fraud, BAC deceptively represented it sold the HOMEOWNER #1 property after foreclosure auction to Fannie Mae, who already owned and/or controlled the HOMEOWNER #1 Note and security interest or held it in a trust with a guaranty [potential liability] for other investors.

In the case of a non-judicial foreclosure ("NJF") the concealment is even more of an egregious nature because there is no judicial process initiated to allow for discovery that might

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[16] *See* Fannie Mae 2007 Annual Report, pages 3-4 at: http://www.fanniemae.com/resources/file/ir/pdf/proxy-statements/2007_annual_report.pdf

[17] HRCP Rule 17 (a) Real party in interest reads "[E]very action shall be prosecuted in the name of the real party in interest."

have uncovered the real party in interest. It doesn't give time to raise the issue and allow the real party to join the action or allow for evidence to defend against the taking of the HOMEOWNER #1 property. Many false documents were filed and remain in the Hawaii Bureau of Conveyances and Hawaii Courts continuing to cloud title to the property and false statements were published in the Honolulu Advertiser as if that alone could make BAC legitimate.

BAC Home Loans had no concrete injury to claim to be Plaintiff

BAC had no CHL liabilities to have created actual concrete injury. Bank of America acquired Countrywide, but it did not assume its liabilities. Instead, the assets and liabilities of Countrywide were held separately in the formerly public company Countrywide Financial Corporation. The only change was that instead of Countrywide Financial stock being held by the public, it was now held by Bank of America. Because of limited liability laws for corporations, public shareholders of Countrywide Financial are not liable for Countrywide's debts, and neither is Bank of America.

Moreover, before the 2008 Bank of America / Countrywide merger, Countrywide had "sold" or provided the HOMEOWNER #1 loan to Fannie Mae in 2007.[18] Whether Fannie Mae portfolio'd the HOMEOWNER #1 loan/Note or placed it in a securitized trust, it transpired before BAC became servicer. Therefore, BAC, as a mere servicer / debt collector, had no concrete injury, damage nor interest in the HOMEOWNER #1 loan and was not the real party in interest.

Apparently in 2012, Fannie Mae's conservator, the Federal Housing Finance Agency (FHFA), made changes in Principal forgiveness policies,[19] not to participate in the HAMP program:

Along with the DOJ complaint came numerous changes in the Fannie Mae Servicing Guidelines, including a new policy not to participate in the HAMP program that may have helped HOMEOWNER #1 earlier save her home from foreclosure and ejectment. By concealing Fannie Mae as the real party in interest and wasting valuable time, HOMEOWNER #1 would have no knowledge of what she may have been entitled to including, but not limited to, intentional concealment and deception.

Fannie Mae may have made changes in 2012-2016,[20] but the fact remains that in 2007 CHL was providing the majority of its loans directly to Fannie Mae under existing Fannie Mae guidelines, albeit alleged unlawful conduct of less than quality loans using a "Hustle" scheme.

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[18] Bank of America acquired Countrywide in 2008, but it did not assume its liabilities. Instead, the assets and liabilities of Countrywide were held separately in the formerly public company Countrywide Financial Corporation. *See*: https://www.sec.gov/Archives/edgar/data/25191/000089882208000107/exhibit21.htm

[19] See page 34, Principal Forgiveness: http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf

[20] 2012-2016 was the period of time during the DOJ lawsuit and appeal. The GSE's complicity in the Hustle would have made it hard to prove intent. Certainly, concealing Fannie Mae in the HOMEOWNER #1 non-judicial foreclosure case raises significant issues.

New Servicer Requirements for Default-Related Legal Services In Lieu of Retained Attorney Network

In November 2012, we announced new servicer requirements with respect to default-related legal services for our loans. These new requirements were developed in conjunction with FHFA and Freddie Mac, through FHFA's Servicing Alignment Initiative, in response to FHFA's October 2011 directive to phase out the practice of requiring mortgage servicers to use our network of retained attorneys to perform default- and foreclosure-related legal services for our loans. The new requirements become effective for our mortgage servicers in June 2013. During the transitional period, servicers will continue to be directly responsible for managing the foreclosure process and monitoring network firm performance in accordance with our current requirements and contractual arrangements.

Principal Forgiveness

In July 2012, the Acting Director of FHFA announced FHFA's decision not to direct Fannie Mae and Freddie Mac to participate in the Principal Reduction Alternative feature of Treasury's Home Affordable Modification Program ("HAMP"). Based on its analysis, FHFA concluded that the economic benefit of participating in that program does not outweigh the costs and risks.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

On April 9, 2012, FHFA issued an Advisory Bulletin, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention," which was effective upon issuance and is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000.

Among other requirements, the Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell, as "loss" when the loan is no more than 180 days delinquent, except in certain specified circumstances (such as properly secured loans with an LTV ratio equal to or less than 60%), and charge off the portion of the loan classified as "loss." The Advisory Bulletin also specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses.

The accounting methods outlined in FHFA's Advisory Bulletin are different from our current methods of accounting for single-family loans that are 180 days or more delinquent. As described in "Risk Factors," we believe that implementation of these changes in our accounting methods present significant operational challenges for us. We have agreed with FHFA that (1) effective January 1, 2014, we will implement the Advisory Bulletin's requirements related to classification, and

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PART I

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 delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. 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 describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in "Business—Conservatorship and Treasury Agreements."

Item 1. Business

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market. However, as the leading source of residential mortgage credit in the secondary market, we indirectly enable families to buy, refinance or rent a home. Our most significant activity is securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets.

MORTGAGE SECURITIZATIONS

We support market liquidity by securitizing mortgage loans, which means we place loans in a trust and Fannie Mae MBS backed by the mortgage loans are then issued. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) two broad categories of securitization transactions: lender swaps and portfolio securitizations; (2) features of our MBS trusts; (3) circumstances under which we purchase loans from MBS trusts; and (4) single-class and multi-class Fannie Mae MBS.

Lender Swaps and Portfolio Securitizations

We currently securitize a majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within two broad categories: lender swap transactions and portfolio securitizations.

Our most common type of securitization transaction is our "lender swap transaction." Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust that is established for the sole purpose of holding the mortgage loans separate and apart from our assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as the fee for providing our guaranty. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

In contrast to our lender swap securitizations, in which lenders deliver pools of mortgage loans to us that we immediately place in a trust for securitization, our "portfolio securitization transactions" involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our mortgage portfolio.

Features of Our MBS Trusts

We serve as trustee for our MBS trusts, each of which is established for the sole purpose of holding mortgage loans separate and apart from our assets. Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the "trust documents" that govern an individual MBS trust.

Fannie Mae may also purchase securities in the MBS trusts in sponsors. The purchase price may be at the unpaid principal and accrued interest:

Purchases of Loans from our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. For example, we have the option under the terms of the trust documents to purchase a loan from an MBS trust if the loan is delinquent as to four or more consecutive monthly payments. We generally have the obligation to purchase a mortgage loan from an MBS trust when the mortgage loan becomes delinquent as to 24 monthly payments. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest.

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: our legal ability to purchase loans under the terms of the trust documents; whether we have agreed to modify the loan, which we cannot do while it remains in the trust; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; the impact on our results of operations; relevant market yields; the accounting impact; the administrative costs associated with purchasing and holding the loans; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; and general market conditions. The weight we give to these factors changes depending on market circumstances and other factors.

The cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent. During 2012, we purchased delinquent loans with an unpaid principal balance of approximately $45.8 billion from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other constraints, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement.

For our multifamily MBS trusts, we typically exercise our option to purchase a loan from the trust if the loan is delinquent, in whole or in part, as to four or more consecutive monthly payments.

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS in which the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including Real Estate Mortgage Investment Conduits ("REMICs"), in which the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents an undivided beneficial ownership interest in the assets of the related MBS trust and entitles the related holder to a specific portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes expire, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the terms of the securities' structures. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are typically resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf

Actions taken by state and local governments to address the housing crisis or increase revenues could have an adverse effect on our business, results of operations, financial condition and net worth.

Many state and local governments are seeking ways to address the effects of the housing crisis, including high levels of foreclosures. State and local governments are also seeking ways to address declining tax revenues. Some of the legislative, regulatory or litigation-related actions governments take to address these issues may adversely affect us by, for example, increasing our costs or affecting our ability to achieve our business goals efficiently and effectively.

For example, a number of lawsuits have been filed against us challenging our right to claim an exemption, under our charter, from transfer taxes in connection with the recordation of deeds upon transfers of real property. Additional similar lawsuits could be filed against us, and taxing authorities in jurisdictions that do not normally impose a tax on the transfer of real property could also seek to impose transfer taxes on us. If we were to become subject to real property transfer taxes in a large number of states and localities, and if we were required to pay a number of years of past transfer taxes in these states and localities, it would increase our costs going forward and could have an adverse effect on our financial results.

In another example, a number of local governments are considering or may consider using eminent domain to seize mortgage loans and forgive principal on the loans. Such seizures, if they are successful, could result in further losses and write-downs relating to our investment securities and could increase our credit losses.

These actions and others that state and local governments may pursue in the future could have an adverse effect on our business, results of operations, financial condition and net worth.

http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf **at page 52**

Fannie Mae also cites weaknesses in internal controls. It is not surprising it allows major customers like Bank of America, N.A. to assign mortgages to themselves instead of Fannie Mae and then the Trust or that the servicer Quitclaim deeds property over to Fannie Mae after a non-judicial foreclosure. With this lack of financial control, it is difficult to state where Bank of America, N.A. ends and Fannie Mae begins.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures and a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, 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. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information within FHFA's knowledge. As a result, 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 financial statements. Given the structural nature of this material weakness, it is likely that we will not remediate this weakness while we are under conservatorship. See "Controls and Procedures" for further discussion of management's conclusions on our disclosure controls and procedures and internal control over financial reporting.

http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2012/10k_2012.pdf at page 58

The following balance sheet shows the extent of Fannie Mae's interest in any loan that it holds, whether directly or in a sponsored securitized trust:

Table 28: Summary of Consolidated Balance Sheets

	As of December 31,		
	2012	2011	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$ 53,617	$ 63,539	$ (9,922)
Restricted cash	67,919	50,797	17,122
Investments in securities[1]	103,876	151,780	(47,904)
Mortgage loans:			
Of Fannie Mae	355,936	380,379	(24,443)
Of consolidated trusts	2,652,265	2,590,398	61,867
Allowance for loan losses	(58,795)	(72,156)	13,361
Mortgage loans, net of allowance for loan losses	2,949,406	2,898,621	50,785
Other assets[2]	47,604	46,747	857
Total assets	$ 3,222,422	$ 3,211,484	$ 10,938
Liabilities and equity (deficit)			
Debt:			
Of Fannie Mae	$ 615,864	$ 732,444	$ (116,580)
Of consolidated trusts	2,573,653	2,457,428	116,225
Other liabilities[3]	25,681	26,183	(502)
Total liabilities	3,215,198	3,216,055	(857)
Senior preferred stock	117,149	112,578	4,571
Other deficit[4]	(109,925)	(117,149)	7,224
Total equity (deficit)	7,224	(4,571)	11,795
Total liabilities and equity (deficit)	$ 3,222,422	$ 3,211,484	$ 10,938

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Fannie Mae had $3.2 trillion of assets and $3.2 trillion of liabilities, with only $7 billion in equity. This gives them a debt to equity ratio of 445:1. 12/31/2012

Fannie Mae, in fact, has used borrowed funds to seize HOMEOWNER #1's home instead of working out a proper loan modification.

Most of Fannie Mae's assets are in securitized trusts funded 97% by investors. ($2.574 TRILLION / $2.652 TRILLION).

As of 12/31/14, the ratio had deteriorated further with liabilities of $3.244 TRILLION and equity of $3.68 BILLION, or 882:1.

As an entity in federal conservatorship, Fannie Mae has clearly been an unfaithful steward that continues to seek asset seizure rather than modification with almost entirely borrowed money.[21]

[21] *See* http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf p. F-3

FANNIE MAE
(In conservatorship)
Consolidated Balance Sheets
(Dollars in millions, except share amounts)

	As of December 31,	
	2014	**2013**
ASSETS		
Cash and cash equivalents	$ 22,023	$ 19,228
Restricted cash (includes $27,515 and $23,982, respectively, related to consolidated trusts)	32,542	28,995
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,950	38,975
Investments in securities:		
Trading, at fair value	31,504	30,768
Available-for-sale, at fair value (includes $596 and $998, respectively, related to consolidated trusts)	30,654	38,171
Total investments in securities	62,158	68,939
Mortgage loans:		
Loans held for sale, at lower of cost or fair value	331	380
Loans held for investment, at amortized cost:		
Of Fannie Mae	272,360	300,159
Of consolidated trusts (includes $15,629 and $14,268, respectively, at fair value and loans pledged as collateral that may be sold or repledged of $0 and $442, respectively)	2,782,344	2,769,547
Total loans held for investment	3,054,704	3,069,706
Allowance for loan losses	(35,541)	(43,846)
Total loans held for investment, net of allowance	3,019,163	3,025,860
Total mortgage loans	3,019,494	3,026,240
Accrued interest receivable, net (includes $7,169 and $7,271, respectively, related to consolidated trusts)	8,193	8,319
Acquired property, net	10,618	11,621
Deferred tax assets, net	42,206	47,560
Other assets (includes cash pledged as collateral of $1,646 and $1,590, respectively)	19,992	20,231
Total assets	$ 3,248,176	$ 3,270,108
LIABILITIES AND EQUITY		
Liabilities:		
Accrued interest payable (includes $8,282 and $8,276, respectively, related to consolidated trusts)	$ 10,232	$ 10,553
Federal funds purchased and securities sold under agreements to repurchase	50	—
Debt:		
Of Fannie Mae (includes $6,403 and $1,308, respectively, at fair value)	460,443	529,434
Of consolidated trusts (includes $19,483 and $14,976, respectively, at fair value)	2,761,712	2,705,089
Other liabilities (includes $503 and $488, respectively, related to consolidated trusts)	12,019	15,441
Total liabilities	3,244,456	3,260,517
Commitments and contingencies (Note 19)	—	—
Fannie Mae stockholders' equity:		
Senior preferred stock, 1,000,000 shares issued and outstanding	117,149	117,149
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, 1,158,082,750 and 1,158,080,657 shares outstanding, respectively	687	687
Accumulated deficit	(127,618)	(121,227)
Accumulated other comprehensive income	1,733	1,203
Treasury stock, at cost, 150,679,953 and 150,682,046 shares, respectively	(7,401)	(7,401)
Total Fannie Mae stockholders' equity	3,680	9,541
Noncontrolling interest	40	50
Total equity (See Note 1: *Senior Preferred Stock and Warrant Issued to Treasury* and *(Loss) Earnings per Share* for information on our dividend obligation to Treasury)	3,720	9,591
Total liabilities and equity	$ 3,248,176	$ 3,270,108

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[22] *See* http://www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2014/10k_2014.pdf p. F-3

Fannie Mae receives US Government Support in the form of a Department of Treasury guarantee. This allows Fannie Mae to receive forgiveness and continue to operate as a going concern in return for reckless financial operations and financial reporting.

No such forgiveness, however, was extended to homeowner #1. Borrowers typically need to provide personal financial statements and beg for loan modifications. All Fannie Mae has to do is cry "systemic risk" (aka "too big to fail"). Fannie Mae's lack of modification workout negatively affects every loan it touches (there were over 72 million MERS loans). All of their loans foreclosed together cannot dig Fannie Mae out of its debt, let alone add in Freddie Mac. There just isn't enough liquidity.

Impact of U.S. Government Support

We continue to rely on support from Treasury to eliminate any net worth deficits we may experience in the future, which would prevent our being placed into receivership. Based on consideration of all the relevant conditions and events affecting our operations, including our reliance on the U.S. government, we continue to operate as a going concern and in accordance with our delegation of authority from FHFA.

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to "roll-over," or refinancing, risk on our outstanding debt. Our ability to issue long-term debt has been strong primarily due to actions taken by the federal government to support us and the financial markets.

We believe that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. In addition, due to our reliance on the U.S. government's support, our access to debt funding or the cost of debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government. A downgrade in our credit ratings could reduce demand for our debt securities and increase our borrowing costs. Standard & Poor's Ratings Services' ("S&P") downgrade of our credit rating on August 8, 2011, which was a result of a similar action on the U.S. government's sovereign credit rating, has not adversely affected our access to debt funding or the cost of our debt funding. Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations.

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