UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 20, 2017

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Federally chartered corporation	000-50231	52-0883107
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

3900 Wisconsin Avenue, NW Washington, DC	20016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (800) 2FANNIE (800-232-6643)

(Former name or former address, if changed since last report): _______________

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§203.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Item 1.01 Entry into a Material Definitive Agreement.

Increase in Fannie Mae Capital Reserve to $3 billion

On December 21, 2017, Fannie Mae (formally known as the Federal National Mortgage Association), through the Federal Housing Finance Agency ("FHFA"), in its capacity as conservator, and the United States Department of the Treasury ("Treasury") entered into a letter agreement that provides the following:

- For the dividend period from October 1, 2017 through and including December 31, 2017, the dividend otherwise payable to Treasury on Fannie Mae's senior preferred stock will be reduced by $2.4 billion. Consequently, upon the conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors, declaring a senior preferred stock dividend for this dividend period, Fannie Mae will pay a dividend to Treasury of approximately $650 million by December 31, 2017.
- The dividend payable on the senior preferred stock for a dividend period is the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount would have decreased to zero on January 1, 2018. For dividend periods beginning January 1, 2018, the letter agreement increases the applicable capital reserve amount back up to $3 billion.
- If, for any future dividend period, Fannie Mae does not declare and pay a dividend in the full amount provided for in the senior preferred stock, the capital reserve amount will thereafter be zero. Under the terms of the senior preferred stock, if we do not have a positive net worth or if our net worth does not exceed the applicable capital reserve amount as of the end of a fiscal quarter, then no dividend amount will accrue or be payable for the applicable dividend period.
- Fannie Mae will amend or replace the existing Certificate of Designation for the senior preferred stock to reflect the revised dividend provisions.
- In addition, the liquidation preference on the senior preferred stock, which is currently $117.1 billion, will increase by $3 billion on December 31, 2017.

A copy of the letter agreement is filed as Exhibit 10.1 to this report and incorporated herein by reference. The description of the agreement herein is qualified in its entirety by reference to the full text of the agreement filed as Exhibit 10.1 to this report.

Treasury beneficially owns more than 5% of the outstanding shares of our common stock by virtue of the warrant we issued to Treasury on September 7, 2008. Fannie Mae's Form 10-K for the year ended December 31, 2016 contains a description of Fannie Mae's amended and restated senior preferred stock purchase agreement with Treasury under the heading "Business—Conservatorship and Treasury Agreements—Treasury Agreements" and discussions, which are incorporated herein by reference, of Treasury's beneficial ownership of our common stock and our transactions with Treasury in "Certain Relationships and Related Transactions, and Director Independence—Transactions with Related Persons—Transactions with Treasury."

Item 8.01 Other Events.

On December 20, 2017, Congress passed tax legislation that, among other things, reduces the corporate income tax rate from 35% to 21%. Because of this reduction in the corporate tax rate, Fannie Mae is required to measure its deferred tax assets using the new rate in the period in which the bill containing the rate change is signed by the President and enacted into law. This will result in an estimated one-time charge through our provision for federal income taxes of approximately $10 billion in that period. We expect this charge, combined with the restrictions on the amount of capital we are permitted to retain, will result in our being required to draw from Treasury under our Senior Preferred Stock Purchase Agreement with Treasury. Our expectations are based on assumptions relating to a number of factors, including the value of our deferred tax assets as of December 31, 2017. Upon drawing funds from Treasury, the amount of remaining funding under the agreement, currently $117.6 billion, will be reduced by the amount of our draw. Our need for a draw will be due to restrictions on the amount of capital we may retain and not an indication of our underlying business fundamentals, which remain strong. We also expect that we will benefit from the lower corporate tax rate in the future.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are being submitted with this report:

Exhibit Number	Description of Exhibit
10.1	Letter Agreement between the United States Department of the Treasury and the Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator, dated December 21, 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By /s/ Timothy J. Mayopoulos

Timothy J. Mayopoulos
President and Chief Executive Officer

Date: December 21, 2017

Exhibit 10.1

[Letterhead of the U.S. Department of the Treasury]

Secretary of the Treasury

December 21, 2017

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Dear Director Watt:

Reference is made to the Amended and Restated Preferred Stock Purchase Agreement dated as of September 26, 2008, as amended (the Agreement), between the United States Department of the Treasury (Treasury) and the Federal National Mortgage Association (the Enterprise), acting through the Federal Housing Finance Agency as its Conservator, and the Amended and Restated Certificate of Designation (the Certificate) executed pursuant to the Agreement. Capitalized terms used herein without definition have the meanings assigned to them in the Agreement and the Certificate.

In the Agreement, Treasury committed itself to provide to the Enterprise, on the terms and conditions provided in the Agreement, immediately available funds in an amount determined from time to time as provided in the Agreement, but in no event in an aggregate amount exceeding $100,000,000,000. In consideration for Treasury's commitment, the Enterprise agreed to sell, and did sell, to Treasury 1,000,000 shares of senior preferred stock, in the form of Variable Liquidation Preference Senior Preferred Stock of the Enterprise with terms set forth in the Certificate, and an initial liquidation preference equal to $1,000 per share.

The Agreement provides that the aggregate liquidation preference of the outstanding shares of senior preferred stock shall be automatically increased by an amount equal to the amount of each draw under Treasury's funding commitment, and the Certificate originally provided that the senior preferred stock shall accrue dividends at the annual rate per share equal to 10 percent on the then-current liquidation preference.

Treasury and the Enterprise have heretofore entered into:

(a) the Amendment dated as of May 6, 2009, to the Agreement, in which Treasury increased to $200,000,000,000 the maximum aggregate amount permitted to be provided to the Enterprise under the Agreement, and amended the terms of the Agreement in certain other respects;

(b) the Second Amendment dated as of December 24, 2009, to the Agreement, in which Treasury modified the maximum aggregate amount permitted to be provided to the Enterprise under the Agreement, as previously amended, by replacing the fixed maximum aggregate amount with the new formulaic maximum amount specified therein, and amended the terms of the Agreement, as previously amended, in certain other respects; and,

(c) the Third Amendment dated as of August 17, 2012, to the Agreement, in which the Enterprise modified the dividend rate provision set forth in the Certificate, and amended the terms of the Agreement, as previously amended, in certain other respects.

Treasury and the Enterprise are each authorized to enter into this letter agreement further amending the Certificate by modifying the dividend and liquidation preference provisions of the senior preferred stock sold by the Enterprise to Treasury. Therefore, for and in consideration of the mutual agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Treasury and the Enterprise agree as follows:

Fourth Quarter Dividend

Section 2(a) of the Certificate provides that Treasury, as the holder of outstanding shares of Senior Preferred Stock of the Enterprise, shall be entitled to receive, when, as, and if declared by the Board of Directors, in its sole discretion, cumulative cash dividends quarterly on each Dividend Payment Date. The Enterprise agrees to declare and pay the dividend payable to Treasury for the Dividend Period that ends on December 31, 2017 in an amount equal to the Dividend Amount minus $2,400,000,000 (the Q4 Dividend).

Applicable Capital Reserve Amount

Section 10(g)(ii) of the Certificate provides that the consent of Treasury, as the holder of at least two-thirds of the outstanding shares of Senior Preferred Stock, is necessary to authorize any amendment of the Certificate affecting the interests of the holders. Effective upon receipt of the Q4 Dividend, Treasury agrees that the Enterprise will either amend the Certificate, or issue a replacement Certificate, in either case so that, effective January 1, 2018, paragraph 2(c) reads as follows:

(c) For each Dividend Period from the date of the initial issuance of the Senior Preferred Stock through and including December 31, 2012, “Dividend Rate” means 10.0 percent; provided, however, that if at any time the Company shall have for any reason failed to pay dividends in cash in a timely manner as required by this Certificate, then immediately following such failure and for all Dividend Periods thereafter until the Dividend Period following the date on which the Company shall have paid in cash full cumulative dividends (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8) the “Dividend Rate” shall mean 12.0 percent.

For each Dividend Period from January 1, 2013, and thereafter, the “Dividend Amount” for a Dividend Period means the amount, if any, by which the Net Worth Amount at the end of the immediately preceding fiscal quarter, less the Applicable Capital Reserve Amount for such Dividend Period, exceeds zero. In each case, “Net Worth Amount” means (i) the total assets of the Company (such assets excluding the Commitment and any unfunded amounts thereof) as reflected on the balance sheet of the Company as of the applicable date set forth in this Certificate, prepared in accordance with GAAP, less (ii) the total liabilities of the Company (such liabilities excluding any obligation in respect of any capital stock of the

Company, including this Certificate), as reflected on the balance sheet of the Company as of the applicable date set forth in this Certificate, prepared in accordance with GAAP. "Applicable Capital Reserve Amount" means, as of any date of determination, (A) for each Dividend Period from January 1, 2013, through and including December 31, 2013, $3,000,000,000; (B) for each Dividend Period occurring within each 12-month period thereafter, through and including December 31, 2017, $3,000,000,000 reduced by $600,000,000 for each such 12-month period, so that for each Dividend Period from January 1, 2017, through and including December 31, 2017, the Applicable Capital Reserve Amount shall be $600,000,000; and (C) for each Dividend Period from January 1, 2018, and thereafter, $3,000,000,000. Notwithstanding the foregoing, for each Dividend Period from January 1, 2018, and thereafter, following any Dividend Payment Date with respect to which the Board of Directors does not declare and pay a dividend or declares and pays a dividend in an amount less than the Dividend Amount, the Applicable Capital Reserve Amount shall thereafter be zero. For the avoidance of doubt, if the calculation of the Dividend Amount for a Dividend Period does not exceed zero, then no Dividend Amount shall accrue or be payable for such Dividend Period.

For the avoidance of doubt, following the amendment of the Certificate as provided in this Letter Agreement, Section 2 of the Certificate, as amended hereby, shall be deemed to be in form and content substantially the same as the form and content of the Senior Preferred Stock in effect on September 30, 2012.

Increase in Liquidation Preference

The Enterprise and Treasury agree that, notwithstanding Sections 2(b) and 8(b)(iii) of the Certificate, the Liquidation Preference shall be increased by $3,000,000,000 on December 31, 2017.

Sincerely,

/s/ Steven T. Mnuchin

Steven T. Mnuchin

Agreed and Accepted:

Federal National Mortgage Association, by
Federal Housing Finance Agency, its Conservator

/s/ Melvin L. Watt
Melvin L. Watt
Director