

FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
November 03, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015
or

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

For the transition period from _____ to _____
Commission File Number: 001-34139

Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)
Freddie Mac

Federally chartered corporation	8200 Jones Branch Drive	52-0904874	(703) 903-2000
	McLean, Virginia 22102-3110		(Registrant's telephone number, including area code)
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 21, 2015, there were 650,045,962 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements	<u>76</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>1</u>
Executive Summary	<u>1</u>
Selected Financial Data	<u>11</u>
Consolidated Results of Operations	<u>12</u>
Consolidated Balance Sheets Analysis	<u>31</u>
Risk Management	<u>40</u>
Liquidity and Capital Resources	<u>66</u>
Fair Value Hierarchy and Valuations	<u>69</u>
Off-Balance Sheet Arrangements	<u>70</u>
Critical Accounting Policies and Estimates	<u>70</u>
Forward-Looking Statements	<u>70</u>
Legislative and Regulatory Matters	<u>71</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>72</u>
Item 4. Controls and Procedures	<u>74</u>
PART II — OTHER INFORMATION	<u>139</u>
Item 1. Legal Proceedings	<u>139</u>
Item 1A. Risk Factors	<u>139</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>139</u>
Item 6. Exhibits	<u>139</u>
SIGNATURES	<u>141</u>
GLOSSARY	<u>142</u>
EXHIBIT INDEX	<u>E-1</u>

Table of Contents

MD&A TABLE REFERENCE

Table	Description	Page
1	Total Single-Family Mortgage Loan Workout Volumes	<u>3</u>
2	Mortgage-Related Investments Portfolio	<u>10</u>
3	Selected Financial Data	<u>11</u>
4	Summary Consolidated Statements of Comprehensive Income	<u>12</u>
5	Net Interest Income/Yield and Average Balance Analysis	<u>13</u>
6	Single-Family Impaired Mortgage Loans with Specific Reserve Recorded	<u>15</u>
7	TDRs and Non-Accrual Mortgage Loans	<u>16</u>
8	Credit Loss Performance	<u>17</u>
9	Severity Ratios for Single-Family Mortgage Loans	<u>18</u>
10	Derivative Gains (Losses)	<u>18</u>
11	Other Gains (Losses) on Investment Securities Recognized in Earnings	<u>19</u>
12	Other Income (Loss)	<u>20</u>
13	Non-Interest Expense	<u>21</u>
14	Components of Other Comprehensive Income (Loss)	<u>22</u>
15	Composition of Segment Mortgage Portfolios and Credit Risk Portfolios	<u>23</u>
16	Segment Earnings and Key Metrics — Single-Family Guarantee	<u>24</u>
17	Segment Earnings and Key Metrics — Investments	<u>27</u>
18	Segment Earnings and Key Metrics — Multifamily	<u>29</u>
19	Investments in Securities on Our Consolidated Balance Sheets	<u>31</u>
20	Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets	<u>32</u>
21	Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets	<u>33</u>
22	Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans and Certain Related Credit Statistics	<u>34</u>
23	Mortgage Loan Purchases and Other Guarantee Commitment Issuances	<u>36</u>
24	Freddie Mac Mortgage-Related Securities	<u>38</u>
25	Issuances and Extinguishments of Debt Securities of Consolidated Trusts	<u>39</u>
26	Changes in Total Equity	<u>39</u>
27	Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio	<u>42</u>
28	STACR Debt Note and ACIS Transactions	<u>44</u>
29	Characteristics of the Single-Family Credit Guarantee Portfolio	<u>46</u>
30	Single-Family Credit Guarantee Portfolio Data by Year of Origination	<u>47</u>
31	Single-Family Serious Delinquency Rate Trend	<u>48</u>
32	Single-Family Serious Delinquency Statistics	<u>49</u>
33	Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio	<u>50</u>
34	Single-Family Mortgage Loans with Scheduled Payment Changes by Year at September 30, 2015	<u>51</u>
35	Credit Concentrations in the Single-Family Credit Guarantee Portfolio	<u>53</u>
36	Single-Family Credit Guarantee Portfolio by Attribute Combinations	<u>54</u>
37	Single-Family Relief Refinance Mortgage Loans	<u>55</u>
38	Single-Family Mortgage Loan Workout, Serious Delinquency, and Foreclosure Volumes	<u>56</u>
39	Quarterly Percentages of Modified Single-Family Mortgage Loans — Current or Paid Off	<u>57</u>
40	Foreclosure Timelines for Single-Family Mortgage Loans	<u>58</u>
41	Multifamily Mortgage Portfolio — by Attribute	<u>59</u>
42	Mortgage Insurance by Counterparty	<u>63</u>
43	Derivative Counterparty Credit Exposure	<u>64</u>
44	Activity in Other Debt	<u>67</u>
45	Freddie Mac Credit Ratings	<u>68</u>

Table of Contents

47	Affordable Housing Goals for 2015 to 2017	<u>72</u>
48	PMVS and Duration Gap Results	<u>74</u>
49	Derivative Impact on PMVS-L (50 bps)	<u>74</u>

Table of Contents

FINANCIAL STATEMENTS

	Page
Condensed Consolidated Statements of Comprehensive Income	<u>77</u>
Condensed Consolidated Balance Sheets	<u>78</u>
Condensed Consolidated Statements of Cash Flows	<u>79</u>
Note 1: Summary of Significant Accounting Policies	<u>80</u>
Note 2: Conservatorship and Related Matters	<u>82</u>
Note 3: Variable Interest Entities	<u>83</u>
Note 4: Mortgage Loans and Loan Loss Reserves	<u>84</u>
Note 5: Impaired Mortgage Loans	<u>90</u>
Note 6: Real Estate Owned	<u>96</u>
Note 7: Investments in Securities	<u>96</u>
Note 8: Debt Securities and Subordinated Borrowings	<u>100</u>
Note 9: Derivatives	<u>102</u>
Note 10: Collateral and Offsetting of Assets and Liabilities	<u>104</u>
Note 11: Stockholders' Equity	<u>107</u>
Note 12: Income Taxes	<u>109</u>
Note 13: Segment Reporting	<u>110</u>
Note 14: Financial Guarantees	<u>115</u>
Note 15: Concentration of Credit and Other Risks	<u>116</u>
Note 16: Fair Value Disclosures	<u>121</u>
Note 17: Legal Contingencies	<u>134</u>
Note 18: Regulatory Capital	<u>137</u>
Note 19: Selected Financial Statement Line Items	<u>137</u>

Table of Contents

PART I — FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in: (a) the “FORWARD-LOOKING STATEMENTS” sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2014, or 2014 Annual Report, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015; and (b) the “RISK FACTORS” and “BUSINESS” sections of our 2014 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the “GLOSSARY.”

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this MD&A in conjunction with our 2014 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2015 included in “FINANCIAL STATEMENTS.”

EXECUTIVE SUMMARY

Overview

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We do this primarily by purchasing residential mortgage loans originated by mortgage lenders. In most instances, we package these mortgage loans into mortgage-related securities, which are guaranteed by us and sold in the global capital markets. We also invest in mortgage loans and mortgage-related securities. We do not originate mortgage loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by: (a) providing America’s families with access to mortgage funding at lower rates; (b) helping distressed borrowers keep their homes and avoid foreclosure; and (c) providing consistent liquidity to the multifamily mortgage market, which primarily includes providing financing for workforce rental housing. We are also working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

Conservatorship and Government Support for Our Business

Since September 2008, we have been operating in conservatorship, with FHFA acting as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition, and results of operations. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist.

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury.

Consolidated Financial Results

Comprehensive income (loss) was \$(0.5) billion for the third quarter of 2015, compared to \$2.8 billion for the third quarter of 2014. Comprehensive income (loss) for the third quarter of 2015 consisted of \$(0.5) billion of net income (loss). The main drivers of our results for the third quarter of 2015 include net interest income and fair value losses on our derivatives.

During the third quarter of 2015 our results were negatively impacted by market-related items. We estimate that \$1.5 billion of loss was driven by losses on derivatives used to economically hedge the interest rate risk related to certain financial assets and liabilities that were not measured at fair value. These derivative losses were driven by a decrease in interest rates and yield curve flattening during the quarter. In addition, an estimated \$0.6 billion of loss was driven by changes in the fair value of certain mortgage loans and mortgage-related securities that are measured at fair value, due to credit spread widening.

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Our total equity was \$1.3 billion at September 30, 2015. Because our net worth was positive at September 30, 2015, we are not requesting a draw from Treasury under the Purchase Agreement for the third quarter of 2015. Through September 30, 2015, we have received aggregate funding of \$71.3 billion from Treasury under the Purchase Agreement, and have paid \$96.5 billion in aggregate cash dividends to Treasury.

Variability of Earnings

Our financial results are subject to significant earnings variability from period to period. This variability is primarily driven by:

1

Freddie Mac Form 10-Q

Table of Contents

Interest-Rate Volatility — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities, including derivatives (i.e., some are measured at amortized cost, while others are measured at fair value), creates volatility in our earnings when interest rates fluctuate. This volatility is not indicative of the underlying economics of our business.

Given this volatility and the declining capital reserve permitted under the terms of the Purchase Agreement (ultimately reaching zero in 2018), the risk of our having a negative net worth and being required to make a draw from Treasury will increase. To mitigate this risk, we may enter into transactions or take other steps that could increase our costs or lower our returns.

Spread Volatility — Spread volatility (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or option-adjusted spreads, is the risk associated with changes in interest rates in excess of benchmark rates. We hold assets and liabilities that expose us to spread volatility. However, we have limited ability to manage spread volatility. Changes in spreads may contribute to significant earnings volatility period to period.

For information on how option-adjusted spreads may affect our earnings, see "RISK FACTORS — Competitive and Market Risks — Changes in OAS could materially affect our results of operations and net worth" in our 2014 Annual Report.

Non-Recurring Events — From time to time, we have experienced and will likely continue to experience significant earnings volatility from non-recurring events related to the financial crisis, including settlements with counterparties and changes in certain valuation allowances (i.e., allowance for loan losses and deferred tax asset).

Our Primary Business Objectives

Our primary business objectives are:

to support U.S. homeownership and renting families by maintaining mortgage availability even when other sources of financing are scarce and providing struggling homeowners with alternatives that allow them to stay in their homes or to avoid foreclosure;

to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile;

to build a commercially strong and efficient business enterprise to succeed in a to-be-determined "future state"; and

to support and improve the secondary mortgage market.

Our business objectives reflect direction that we have received from the Conservator, including the 2015 Conservatorship Scorecard. For information on the Scorecard and the related 2014 Strategic Plan, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — FHFA's Strategic Plan for Freddie Mac and Fannie Mae Conservatorships" in our 2014 Annual Report.

Supporting U.S. Homeownership and Renting Families

Maintaining Mortgage Availability

We maintain a consistent presence in the secondary mortgage market, and we are available to purchase mortgage loans even when other sources of financing are scarce. By providing this consistent source of liquidity for mortgage loans, we help provide our customers with confidence to continue lending even in difficult environments. During the nine months ended September 30, 2015, we purchased, or issued other guarantee commitments for, \$274.9 billion in UPB of single-family conforming mortgage loans (representing approximately 1.2 million homes), compared to \$184.3 billion during the nine months ended September 30, 2014 (representing approximately 884,000 homes).

Origination volumes in the U.S. residential mortgage market increased during the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014, due to an increase in the volume of refinance mortgage loans driven by lower long-term mortgage interest rates.

During the nine months ended September 30, 2015, our total multifamily new business activity was \$34.1 billion in UPB, which provided financing for more than 2,300 multifamily properties (representing approximately 480,000 apartment units). Nearly 90% of the units were affordable to families earning at or below the median income in their area. During the nine months ended September 30, 2014, our total multifamily new business activity was \$14.1 billion in UPB, which provided financing for more than 900 multifamily properties (representing approximately 214,000 apartment units).

Providing Struggling Homeowners with Alternatives that Allow Them to Stay in Their Homes or to Avoid Foreclosure

We use a variety of borrower-assistance programs (such as HARP and HAMP) designed to provide struggling borrowers with alternatives to help them stay in their homes. We establish guidelines for our servicers to follow and provide them with default management programs to use in determining which type of borrower-assistance program (i.e., one of our mortgage loan workout activities or our relief refinance initiative) would be expected to enable us to manage our exposure to credit losses. In May 2015, FHFA announced an extension of our participation in HARP and HAMP through 2016.

Table of Contents

During the nine months ended September 30, 2015, we purchased or guaranteed \$15.9 billion in UPB of relief refinance mortgage loans, including \$6.2 billion of HARP mortgage loans. During the nine months ended September 30, 2014, we purchased or guaranteed \$21.6 billion in UPB of relief refinance mortgage loans, including \$11.6 billion of HARP mortgage loans. We have purchased HARP mortgage loans that were provided to nearly 1.4 million borrowers since the initiative began in 2009, including more than 36,000 borrowers during the nine months ended September 30, 2015.

During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we modified \$7.8 billion and \$10.1 billion in UPB of mortgage loans, respectively. When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure. Since 2009, we have helped approximately 1.1 million borrowers experiencing hardship to complete a mortgage loan workout under our programs.

The table below presents our completed workout activities for mortgage loans within our single-family credit guarantee portfolio during the last five quarters.

Table 1 — Total Single-Family Mortgage Loan Workout Volumes

Number of mortgage loans (000)

Excludes modification, repayment, and forbearance activities that have not been made effective, such as mortgage loans in modification trial periods. As of September 30, 2015, more than 23,000 borrowers were in modification trial periods. These categories are not mutually exclusive and a mortgage loan in one category may also be included in another category in the same period.

As shown in the table above, the volume of completed mortgage loan workouts has generally declined over the past five quarters. We attribute this decline to overall improvements in the economy and mortgage market, including rising home prices, declining unemployment rates, and declining serious delinquency rates. While we believe our borrower-assistance programs have been largely successful, many borrowers still need assistance. We continue our efforts to: (a) encourage eligible borrowers to refinance their mortgage loans under HARP; (b) develop additional loss mitigation strategies and modify existing programs, as needed; and (c) execute certain neighborhood stabilization activities. As part of these efforts:

(1) We participated with FHFA and Fannie Mae in open forum meetings in several cities to inform community leaders about HARP eligibility criteria and benefits.

In June 2015, we announced that we are extending our streamlined modification program indefinitely. In September 2015, we announced changes designed to expand the pool of borrowers eligible to participate in our modification programs.

Table of Contents

We also continued to work with FHFA and Fannie Mae to develop and execute neighborhood stabilization plans in certain cities. In these cities we continue to work with locally-based private entities to facilitate REO dispositions and provide an initial period for REO properties to be purchased by owner occupants and others before we consider offers from investors.

Reducing Taxpayer Exposure to Losses and Reducing our Risk Profile

We are working diligently with FHFA to reduce the taxpayers' exposure to losses and our risk profile by:

• transferring to private investors, insurers and selected sellers part of the credit risk of our New single-family book and our total multifamily portfolio;

• managing the performance of our servicers through our contracts with them;

• selling non-performing single-family mortgage loans;

• improving our returns on property dispositions;

• pursuing our rights against mortgage insurers;

• recovering losses on non-agency mortgage-related securities; and

• reducing our mortgage-related investments portfolio over time.

As discussed above, many of our borrower-assistance programs, such as mortgage loan modifications, also help reduce our risk of credit losses.

Transferring Credit Risk

We continue to reduce our exposure to credit risk in our New single-family book through the use of credit risk transfer transactions. During the nine months ended September 30, 2015, we completed six STACR debt note transactions, six ACIS transactions, one whole loan security transaction, and one seller indemnification transaction. These transactions transferred a portion of credit risk on certain groups of mortgage loans in the New single-family book to third-party investors, insurers and selected sellers. The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant mortgage loan defaults. During the nine months ended September 30, 2015, we completed 17 K Certificate transactions in which we transferred the first loss position associated with the underlying multifamily mortgage loans to third-party investors. We continue to develop other strategies intended to reduce our exposure to multifamily mortgage loans and securities by transferring credit risk to third parties.

Managing the Performance of Our Servicers

We continue to review and monitor the performance of our servicers and to seek improvements for the servicing of non-performing mortgage loans in our portfolio. From time to time, we facilitate the transfer of servicing for certain groups of mortgage loans that are delinquent or are deemed at risk of default to servicers that we believe have the capabilities and resources necessary to improve the loss mitigation associated with the mortgage loans.

As of September 30, 2015, the serious delinquency rate of our single-family credit guarantee portfolio was 1.41%, which is the lowest level since October 2008, compared to 1.88% as of December 31, 2014. Our loss mitigation activities (including sales of certain seriously delinquent mortgage loans) and foreclosures have contributed to this decline. However, we continue to have a large number of mortgage loans that have been seriously delinquent for extended periods of time in certain states, such as New York and New Jersey. The longer a mortgage loan remains delinquent, the more costs we incur. The number of our single-family mortgage loans delinquent for more than one year declined 28% during the nine months ended September 30, 2015.

Selling Non-Performing Single-Family Mortgage Loans

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent mortgage loans totaling \$1.9 billion in UPB during the nine months ended September 30, 2015. As of September 30, 2015, we held an additional \$7.1 billion in UPB of seriously delinquent single-family mortgage loans for sale. We believe the sale of these mortgage loans provides better economic returns than continuing to hold them.

Improving Our Returns on Property Dispositions

When a seriously delinquent single-family mortgage loan cannot be resolved through a home retention solution (e.g., a mortgage loan modification), we typically seek to pursue a short sale transaction. A short sale is preferable to a borrower because we provide limited relief to the borrower from repaying the entire amount owed on the mortgage

loan and, in some cases, we also provide cash relocation assistance, while allowing the borrower to exit the home in an orderly manner. A short sale allows Freddie Mac to avoid the costs we would otherwise incur to complete the foreclosure. However, some of our seriously delinquent mortgage loans ultimately proceed to foreclosure. In a foreclosure, we may acquire the underlying property (which we refer to as REO), and later sell it, using the proceeds of the sale to reduce our losses.

Table of Contents

Pursuing Our Rights Against Mortgage Insurers

We received payments under primary and other mortgage insurance policies of \$0.5 billion and \$1.0 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. Although the financial condition of certain of our mortgage insurers has improved in recent years, some have failed to fully meet their obligations to us and there remains a significant risk that others may fail to do so. We expect to receive substantially less than full payment of our claims from two of our mortgage insurers, as they are only permitted to make partial payments under orders from their respective regulators. Many of our mortgage insurers are currently operating below our newly issued eligibility standards that are scheduled to go into effect on December 31, 2015; however, these mortgage insurers have announced that they expect to be in compliance by the effective date. We cannot differentiate pricing based on the financial strength of a mortgage insurer or revoke a mortgage insurer's status as an eligible insurer without FHFA approval. Further, we do not select the insurance provider on a specific mortgage loan. Instead, the selection is made by the lender at the time the mortgage loan is originated. Accordingly, we are unable to manage our concentration risk related to mortgage insurers.

Recovering Losses on Non-Agency Mortgage-Related Securities

We incurred substantial losses on our investments in non-agency mortgage-related securities in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover our losses through litigation and other means. In recent years, we and FHFA reached settlements with a number of institutions. Lawsuits against other institutions are currently pending. For more information on these lawsuits, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS."

Reducing Our Mortgage-Related Investments Portfolio Over Time

We are required to reduce the size of our mortgage-related investments portfolio over time pursuant to the Purchase Agreement and by FHFA. We are particularly focused on reducing the balance of less liquid assets in this portfolio. During the nine months ended September 30, 2015, the size of our mortgage-related investments portfolio declined by 10% or \$41.3 billion, to \$367.1 billion. Reductions in our less liquid assets accounted for the majority of this decline. Our less liquid assets are reduced through: (a) liquidations (including scheduled repayments, prepayments, charge-offs and cash shortfalls); (b) sales (including sales related to settlements of non-agency mortgage-related securities litigation); and (c) securitizations.

Building a Commercially Strong and Efficient Business Enterprise to Succeed in a To-Be-Determined "Future State"

We continue to take steps to build a stronger, profitable business model. Our goal is to strengthen the business model so we can run our business efficiently and effectively in support of homeownership and renting families and taxpayers and, if required as part of a future state for the enterprise, be ready to return to private sector ownership.

Our Single-family Guarantee segment is focused on strengthening our business model by:

Better serving our customers: We continue to enhance our processes and programs to improve our customers' experience when doing business with us. This includes providing seller/servicers with greater certainty that the mortgage loans they sell to us or service for us meet our requirements. We continue to improve the tools we make available to our customers, including expanding and leveraging the data standards of the Uniform Mortgage Data Program. In 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the mortgage loans they sell us, including the dates when the seller obtains relief from certain representations and warranties. Additionally, effective June 1, 2015, we no longer charge a fee to use our Loan Prospector automated underwriting tool. Improvements in our latest customer satisfaction surveys show that our efforts are being recognized by our sellers and servicers. In October 2015, at the direction of FHFA, we and Fannie Mae released a uniform framework for representations and warranties remedies. The enhanced framework is intended to provide more clarity and transparency to lenders who do business with Freddie Mac on the process followed in categorizing origination defects, seller corrections of such defects, and available remedies. Also in October 2015, we announced Loan Advisor Suite, which is a set of integrated software applications designed to give lenders a way to originate and deliver high quality mortgage loans to us and to acquire insight into representation and warranty relief earlier in the mortgage loan production process.

Providing market leadership and innovation: We continue to develop innovative programs and services that benefit the mortgage industry and better meet the needs of an evolving mortgage market. We accomplish this primarily by:

(a) continuing to execute our credit risk transfer transactions, including transactions that provide coverage based on actual losses as well as first losses realized on reference pools of single-family mortgage loans and seeking to expand and refine these offerings in the future; (b) expanding access to credit for credit-worthy borrowers, such as through the initiative we announced in December 2014 for loans with LTV ratios up to 97%; and (c) continuing to work with FHFA and Fannie Mae on enhancing the secondary mortgage loan market, including through the development of a new common securitization platform and a single (common) security. In July 2015, we began offering two new types of credit risk transfer transactions, including a whole loan security, which uses a senior/subordinated security structure

Table of Contents

and a seller indemnification transaction, in which the seller guarantees a portion of the credit losses. We expect to complete more of these transactions in the future, subject to market conditions.

Maintaining sound underwriting practices: We manage our credit risk by setting our underwriting standards at a level commensurate with the long-term credit risk appetite of the company. We believe the credit quality of the single-family mortgage loans in our New single-family book reflects sound underwriting standards as evidenced by their average original LTV ratios and credit scores as well as their credit performance in recent periods.

Reducing our credit losses and addressing emerging credit risks: As part of our loss mitigation strategy, we sold certain seriously delinquent mortgage loans during the nine months ended September 30, 2015. In addition, our mortgage portfolio includes several mortgage loan products with terms that may result in scheduled increases in monthly payments after specified initial periods (e.g., HAMP mortgage loans). A significant number of these mortgage loans have experienced, or will experience, payment changes beginning in 2015, which could increase the risk that the borrowers will default. We introduced several initiatives in 2015 designed to help reduce the risk that borrowers will default on their HAMP mortgage loans.

Optimizing the economics of our single-family business: We seek to achieve strong economic returns on our single-family credit guarantee portfolio while considering and balancing our: (a) housing mission and goals; (b) seller diversification and market share; and (c) security price performance (i.e., the disparities in the trading value of our PCs relative to comparable Fannie Mae securities in the market). However, economic returns on our guarantee activities are limited by, and subject to, FHFA's oversight.

Broadening access to credit: We continue to explore the feasibility of: (a) increasing our purchases of mortgage loans securitized by manufactured housing; (b) improving the effectiveness of pre-purchase and early delinquency counseling for borrowers; (c) utilizing alternative credit score models and credit history standards in mortgage loan eligibility decisions; and (d) increasing support for first-time home buyers. We are responsibly expanding our programs and outreach capabilities to better serve low and moderate income borrowers and underserved markets. In October 2015, we announced a partnership with Quicken Loans to pilot several new initiatives aimed at helping provide more families with the opportunity to achieve homeownership. This program will feature unique co-developed products designed to meet the needs of emerging markets and will also include continued home buyer education.

Our Investments segment is focused on strengthening our business model by:

• Reducing the balance of less liquid mortgage-related assets, specifically non-agency mortgage-related securities and single-family reperforming, performing modified and delinquent mortgage loans;

• Managing the corporate treasury function, including managing funding, interest-rate and liquidity risks, through the use of derivatives, our liquidity and contingency operating portfolio and unsecured debt;

• Continuing to maintain a presence and provide secondary market liquidity for our agency mortgage-related securities; and

Continuing to manage our business based on economics, although we may forgo certain opportunities for a variety of reasons, including the mandated cap on the size of our mortgage-related investments portfolio or the potential accounting impacts. For more information on the mortgage-related investments portfolio cap, see "Limits on Our Mortgage-Related Investments Portfolio."

Our Multifamily segment is focused on strengthening our business model by:

• Increasing our commitment to customers: We consider customer focus to be a key priority in our efforts to build value and support the creation of a strong, long-lasting rental housing system that positively affects the economy and communities nationwide. We look to increase efficiencies for our customers by standardizing and improving the ways in which they provide data to us in order to foster greater transparency and liquidity in the market.

• Providing a reliable flow of capital for workforce housing: In May 2015, FHFA expanded the affordable housing categories that are excluded from the volume limit in our 2015 Scorecard. These revisions will enable us to further support the needs of the affordable rental housing market across more communities. In addition, we are continuing to grow our presence in the small balance mortgage loan and manufactured housing community mortgage loan markets.

• Continuing to create innovative programs to transfer credit risk: We are developing and enhancing programs and offerings that support risk transfer activities. We are pursuing alternative methods to transfer credit risk of

our multifamily mortgage portfolio using transactions other than our existing K Certificates to reduce exposure to mortgage credit risk for the company and U.S. taxpayers.

Improving our risk-adjusted returns: By leveraging private capital in our K Certificate and other credit risk transfer transactions, we are able to reduce capital allocation costs, decrease our potential exposure to credit losses, and build a steady source of management and guarantee fee income while increasing overall returns.

We continue to invest in our infrastructure and operations by:

- Improving our infrastructure: We are improving our information technology in a manner designed to address the evolving requirements of the company, the Conservator, and the mortgage industry. We have ongoing efforts to

Table of Contents

improve our information security and our out-of-region disaster recovery capability. We strive to operate our information technology at world class levels by investing in capabilities that will support the future mortgage market while also seeking to act as good stewards of our technology assets by maintaining, standardizing and simplifying our existing technology portfolio.

Strengthening and streamlining our operations: We continue to strengthen and streamline our operations. We are improving our risk management capabilities by strengthening our three-lines-of-defense risk management framework. We are expanding our second-line-of-defense testing capabilities over our operational controls. We are also conducting a multi-year project focused on identifying and eliminating redundant control activities. In addition, we are conducting select organizational design reviews focused on reducing the number of operating layers within the organization.

Supporting and Improving the Secondary Mortgage Market

Under the direction of FHFA, we continue various efforts to build the infrastructure for a future housing finance system, including the following:

Build the Common Securitization Platform: We continue to work with FHFA, Fannie Mae, and Common Securitization Solutions, LLC (or CSS) on the development of a new common securitization platform. CSS is equally owned by us and Fannie Mae, and was formed to build and operate the platform. We and FHFA expect this will be a multi-year effort. On September 15, 2015, FHFA issued a report titled "An Update on the Common Securitization Platform," which provides an update on this project. The update indicates that Freddie Mac will be the first GSE to use the platform, with FHFA planning to announce in 2016 the date on which this will occur.

Implement the Single Security Initiative: FHFA is seeking ways to improve the overall liquidity of mortgage-related securities issued by us and Fannie Mae. This includes working towards the development of a single (common) security, which is intended to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-related securities. The proposed single (common) security would be issued and guaranteed by either Freddie Mac or Fannie Mae. One of the goals for the proposed single security is for Freddie Mac PCs and Fannie Mae mortgage-related securities to be fungible with the single security to facilitate trading in a single TBA market for these securities. We continue to work on a detailed implementation plan, and we expect that the implementation will be a multi-year effort.

Improve seller and servicer eligibility standards: In the second quarter of 2015, at the direction of FHFA, we and Fannie Mae announced changes to our single-family seller and servicer eligibility requirements. These changes include revisions to net worth requirements, adoption of new capital and liquidity requirements and enhancements to certain servicer operational requirements. Our revised operational requirements took effect on August 18, 2015 and our revised financial requirements will take effect on December 31, 2015.

Implement the Uniform Mortgage Data Program: We and Fannie Mae continue to collaborate with the industry to develop and implement uniform data standards for single-family mortgage loans. This involves support for the mortgage loan data standardization initiatives, including the Uniform Closing Dataset and the Uniform Loan Application Dataset. This will enable us and Fannie Mae to drive improved loan quality and improve risk management.

Improve mortgage insurer eligibility standards: In the second quarter of 2015, at the direction of FHFA, we published revised eligibility requirements for mortgage insurers that include financial requirements determined using a risk-based framework. The revised eligibility requirements will become effective for all Freddie Mac-approved mortgage insurers on December 31, 2015. These revised eligibility requirements are designed to strengthen the mortgage insurance industry and enable a financially strong and resilient system that can provide consistent liquidity throughout the mortgage cycle.

Improve the underwriting processes with our single-family sellers: We meet with selected sellers to review and discuss improvements in their underwriting process. We also continually seek improvements to our automated tools for use in evaluating the credit and product eligibility of mortgage loans and identifying non-compliance issues.

Mortgage Market and Economic Conditions

Overview

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The U.S. real gross domestic product rose by 1.5% on an annualized basis during the third quarter of 2015, compared to an annualized increase of 3.6% during the second quarter of 2015, according to the Bureau of Economic Analysis. The national unemployment rate continued its trend of improvement and was 5.1% in September 2015, compared to 5.6% in December 2014, based on data from the U.S. Bureau of Labor Statistics.

An average of approximately 198,000 and 260,000 monthly net new jobs (non-farm) were added to the economy during the nine months ended September 30, 2015 and the full year of 2014, respectively.

The average interest rate on new 30-year fixed-rate conforming mortgage loans was 4.0% during the third quarter of 2015 and 3.8% during the nine months ended September 30, 2015, compared to 3.8% during the second quarter of

Table of Contents

2015 and 4.2% during the nine months ended September 30, 2014, based on our weekly Primary Mortgage Market Survey.

As reported by the U.S. Census Bureau, the U.S. homeownership rate was 63.7% in the third quarter of 2015, which was 5.5% lower than the high point of 69.2% in the fourth quarter of 2004.

Long-term interest rates, including the 10-year LIBOR, declined in 2015. The 10-year LIBOR declined 44 basis points and 28 basis points during the three and nine months ended September 30, 2015, respectively, while the 10-year LIBOR increased 5 basis points and 41 basis points during the three and nine months ended September 30, 2014, respectively.

Single-Family Housing Market

Sales of existing homes during the third quarter of 2015 were 5.48 million, increasing 3.4% from 5.30 million during the second quarter of 2015 (on a seasonally-adjusted annual basis), based on data from the National Association of Realtors.

Sales of new homes during the third quarter of 2015 were approximately 500,000, increasing 0.6% from approximately 497,000 during the second quarter of 2015 (on a seasonally-adjusted annual basis), based on data from the U.S. Census Bureau and HUD.

Total mortgage loan origination volume increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, as lower average long-term mortgage interest rates caused the volume of refinance activity to increase.

There was continued home price appreciation during the three and nine months ended September 30, 2015.

Home prices increased on a national basis by 0.8% during the third quarter of 2015 and 5.8% since September 2014 (based on our non-seasonally adjusted index), compared to a 0.4% increase during the third quarter of 2014 and a 4.9% increase from September 2013 to September 2014. These estimates were based on our own price index of one-family homes funded by mortgage loans owned or guaranteed by us or Fannie Mae.

Declines in the market's inventory of vacant housing have supported stabilization and increases in home prices in a number of metropolitan areas.

National home prices at September 30, 2015 were approximately 5.8% below their peak levels in June 2006 (based on our index).

Multifamily Housing Market

The multifamily housing market is in its sixth straight year of growth. Based on data reported by Reis, Inc.:

The national apartment vacancy rate was 4.3% at September 30, 2015 and remains low compared to the long-term average of 5.6% since 1980.

Effective rents (i.e., the average rent paid by the tenant over the term of the lease adjusted for concessions by the landlord and costs borne by the tenant) grew by 4.3% on an annualized basis during the third quarter of 2015, more than 1% higher than the long-term average. The annual growth rate in effective rents has not been less than 3% since 2011.

Significant Trends and Developments

Forward-looking statements, such as those discussed below, involve known and unknown risks and uncertainties, some of which are beyond our control. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties. See "FORWARD-LOOKING STATEMENTS" for additional information.

Single-Family Housing Market and our Single-Family Guarantee Segment

Market Conditions - Near-term performance of the single-family housing market is affected by key macroeconomic drivers of the economy, such as income growth, employment, and inflation. In the near term, we believe:

Home price growth rates will continue to be consistent with long-term historical averages (approximately 2 to 5% per year).

Mortgage loan interest rates will remain relatively low compared to historical levels, but begin trending slowly upward.

Housing affordability for potential home buyers will remain relatively high in most metropolitan housing markets.

The volume of home sales during 2015 will likely be slightly higher than during 2014.

Relatively weak employment rates in certain areas and relatively modest family income growth are important factors that will continue to have a negative effect on single-family housing demand.

♣Mortgage Loan Volumes

Table of Contents

Our mortgage loan purchase activity during the nine months ended September 30, 2015 increased to \$274.9 billion in UPB, compared to \$184.3 billion in UPB during the nine months ended September 30, 2014. We expect that the volume of refinance mortgage loans as a percentage of total originations will be lower during the fourth quarter of 2015 compared to the same period of 2014.

Refinance mortgage loans comprised approximately 58% of our single-family mortgage loan volume during the nine months ended September 30, 2015, compared to 46% during the nine months ended September 30, 2014.

The volume of our HARP mortgage loan purchases will likely remain low during the fourth quarter of 2015 since the pool of borrowers eligible to participate in the program has declined.

☪ Credit Performance

Our charge-offs, gross, were \$0.7 billion during the third quarter of 2015 compared to \$1.1 billion during the third quarter of 2014. We expect our charge-offs and credit losses to decline over time, but to remain elevated in the near term.

For the near term, we also expect REO disposition and short sale severity ratios to remain high relative to historic levels while the number of seriously delinquent mortgage loans and the volume of our mortgage loan workouts may continue to decline.

Multifamily Housing Market and our Multifamily Segment

☪ Market Conditions

Low vacancy rates and higher average rents present favorable conditions for the multifamily market and our business, as multifamily mortgage loans are dependent on the cash flow of the underlying properties.

We believe demand for rental housing will remain strong in the near term because of a strengthening job market and growth of household formations.

We expect that new supply of multifamily housing, at the national level, will be absorbed by market demand in the near term, driven by continued improvements in the economy and favorable demographics.

We believe there has been significant growth in the multifamily market during the nine months ended September 30, 2015. As reported by the Federal Reserve, total multifamily mortgage loan debt outstanding was more than \$1.0 trillion at June 30, 2015 (the latest available information), representing an increase of \$92.7 billion (or 9.8%) since June 30, 2014, the largest annual increase ever reported by the Federal Reserve.

☪ New Business Volumes

Our new multifamily business activity during the nine months ended September 30, 2015 was \$34.1 billion compared to \$14.1 billion during the nine months ended September 30, 2014.

Based on FHFA's revised 2015 Scorecard guidance, approximately 70% of our \$34.1 billion in new business activity during the nine months ended September 30, 2015 was counted towards the 2015 volume limit of \$30.0 billion and the remaining 30% was excluded from the limit.

While we continue exploring opportunities to provide financing for workforce housing, we expect to remain within the 2015 Scorecard limit for new business volume.

☪ Securitization Activity

Since the beginning of 2009, we have sold approximately \$115 billion of mortgage loans through K Certificate transactions and transferred the expected credit risk to third party investors through the use of subordination, as this has become the primary focus of our business model.

☪ Credit Performance

The delinquency rate on our multifamily mortgage portfolio was 0.01% at September 30, 2015. Multifamily credit losses as a percentage of the average balance of our multifamily mortgage portfolio were 0.8 basis points in the nine months ended September 30, 2015.

We expect the credit losses and delinquency rates for the multifamily mortgage portfolio to remain low in the near term.

Limits on Our Mortgage-Related Investments Portfolio

Under the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the cap reaches \$250 billion. As a result, the UPB of our mortgage-related investments portfolio may not exceed \$399 billion as of December 31, 2015. Our 2014 Retained

Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement, subject to certain exceptions. For more information on the plan, see “BUSINESS — Executive Summary — Our Primary Business Objectives — Reducing Taxpayer Exposure to Losses — Reducing Our Mortgage-Related Investments Portfolio Over Time” in our 2014 Annual Report.

Table of Contents

Our decisions with respect to managing the decline of the mortgage-related investments portfolio may affect all three business segments. We plan to continue to reduce the balance of the portfolio over the remainder of 2015. In order to achieve all of our portfolio reduction goals, it is possible that we may forgo economic opportunities in one business segment in order to pursue opportunities in another business segment. The reduction in the mortgage-related investments portfolio will result in a decline in income from this portfolio over time.

The table below presents the UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement.

Table 2 — Mortgage-Related Investments Portfolio

	September 30, 2015			December 31, 2014			
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total	
	(in millions)						
Investments segment — Mortgage investments portfolio:							
Single-family unsecuritized mortgage loans	\$—	\$77,843	\$77,843	\$—	\$82,778	\$82,778	
Freddie Mac mortgage-related securities	143,603	6,365	149,968	150,852	7,363	158,215	
Non-agency mortgage-related securities	—	30,020	30,020	—	44,230	44,230	
Non-Freddie Mac agency mortgage-related securities	14,063	—	14,063	16,341	—	16,341	
Total Investments segment — Mortgage investments portfolio	157,666	114,228	271,894	167,193	134,371	301,564	
Single-family Guarantee segment — Single-family unsecuritized seriously delinquent mortgage loans	—	21,352	21,352	—	28,738	28,738	
Multifamily segment — Mortgage investments portfolio	3,573	70,326	73,899	1,911	76,201	78,112	
Total mortgage-related investments portfolio	\$161,239	\$205,906	\$367,145	\$169,104	\$239,310	\$408,414	
Percentage of total mortgage-related investments portfolio	44	% 56	% 100	% 41	% 59	% 100	%
Mortgage-related investments portfolio cap at December 31, 2015 and 2014, respectively			\$399,181			\$469,625	
90% of mortgage-related investments portfolio cap at December 31, 2015 ⁽¹⁾			\$359,263				

(1) Represents the amount that we manage to under our 2014 Retained Portfolio Plan, subject to certain exceptions.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on two categories:

• Single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and

▲ Assets that are less liquid than the agency securities noted above. Assets that we consider to be less liquid than agency securities include unsecuritized single-family and multifamily mortgage loans, certain structured agency securities collateralized by non-agency mortgage-related securities, and our investments in non-agency mortgage-related

securities.

We sold \$12.5 billion of less liquid assets in the first nine months of 2015, including \$1.9 billion in UPB of seriously delinquent unsecuritized single-family loans. In addition, we securitized \$7.4 billion in UPB of single-family reperforming and modified loans, which includes HAMP loans, in the first nine months of 2015. These amounts do not include sales of mortgage loans we purchased for cash and subsequently securitized.

Table of Contents

SELECTED FINANCIAL DATA

The selected financial data presented below should be reviewed in conjunction with our condensed consolidated financial statements and accompanying notes.

Table 3 — Selected Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(dollars in millions, except share-related amounts)				
Statements of Comprehensive Income Data				
Net interest income	\$3,743	\$3,663	\$11,359	\$10,676
Benefit (provision) for credit losses	528	(574)	1,884	(41)
Non-interest income (loss)	(3,841)	764	(3,447)	2,469
Non-interest expense	(1,099)	(816)	(3,599)	(2,267)
Income tax benefit (expense)	194	(956)	(1,979)	(3,374)
Net income (loss)	(475)	2,081	4,218	7,463
Comprehensive income (loss)	(501)	2,786	4,158	9,175
Net income (loss) attributable to common stockholders ⁽¹⁾	(475)	(705)	(441)	(1,712)
Net income (loss) per common share – basic and diluted	(0.15)	(0.22)	(0.14)	(0.53)
Cash dividends per common share	—	—	—	—
Weighted average common shares outstanding (in millions) – basic and diluted	3,234	3,236	3,235	3,236
			September 30, 2015	December 31, 2014
(dollars in millions)				
Balance Sheets Data				
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)			\$1,615,291	\$1,558,094
Total assets			1,962,147	1,945,539
Debt securities of consolidated trusts held by third parties			1,539,108	1,479,473
Other debt			408,281	450,069
All other liabilities			13,459	13,346
Total stockholders' equity			1,299	2,651
Portfolio Balances - UPB				
Mortgage-related investments portfolio			\$367,145	\$408,414
Total Freddie Mac mortgage-related securities ⁽²⁾			1,706,672	1,637,086
Total mortgage portfolio			1,931,342	1,910,106
TDRs on accrual status			83,169	82,908
Non-accrual loans			24,584	33,130
			September 30, 2015	December 31, 2014
(dollars in millions)				
			September 30, 2015	December 31, 2014
Ratios⁽³⁾				

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Return on average assets ⁽⁴⁾	(0.1)% 0.4	% 0.3	% 0.5	%
Allowance for loans losses as percentage of mortgage loans, held-for-investment ⁽⁵⁾	0.9	1.3	0.9	1.3	
Equity to assets ratio ⁽⁶⁾	0.2	0.2	0.1	0.5	

For a discussion of the manner in which the senior preferred stock dividend is determined and how it affects net (1) income (loss) attributable to common stockholders, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share” in our 2014 Annual Report.

(2) See “Table 24 — Freddie Mac Mortgage-Related Securities” for the composition of this line item.

The dividend payout ratio on common stock is not presented because the amount of cash dividends per common share is zero for all periods presented. The return on common equity ratio is not presented because the simple (3) average of the beginning and ending balances of total stockholders’ equity, net of preferred stock (at redemption value) is less than zero for all periods presented.

(4) Ratio computed as net income divided by the simple average of the beginning and ending balances of total assets.

(5) Ratio computed as the allowance for loan losses divided by the total recorded investment of held-for-investment mortgage loans.

(6) Ratio computed as the simple average of the beginning and ending balances of total stockholders’ equity divided by the simple average of the beginning and ending balances of total assets.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our condensed consolidated financial statements, including the accompanying notes.

Table 4 — Summary Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(in millions)					
Net interest income	\$3,743	\$3,663	\$80	\$11,359	\$10,676	\$683
Benefit (provision) for credit losses	528	(574)	) 1,102	1,884	(41)	) 1,925
Net interest income after benefit (provision) for credit losses	4,271	3,089	1,182	13,243	10,635	2,608
Non-interest income (loss):						
Gains (losses) on extinguishment of debt securities of consolidated trusts	(5)	) (132)	) 127	(139)	) (308)	) 169
Gains (losses) on retirement of other debt	9	(8)	) 17	(16)	) —	(16)
Derivative gains (losses)	(4,172)	) (617)	) (3,555)	) (3,440)	) (4,894)	) 1,454
Net impairment of available-for-sale securities recognized in earnings	(54)	) (166)	) 112	(245)	) (687)	) 442
Other gains (losses) on investment securities recognized in earnings	256	(109)	) 365	825	1,029	(204)
Other income (loss)	125	1,796	(1,671)	) (432)	) 7,329	(7,761)
Total non-interest income (loss)	(3,841)	) 764	(4,605)	) (3,447)	) 2,469	(5,916)
Non-interest expense:						
Administrative expense	(465)	) (472)	) 7	(1,417)	) (1,393)	) (24)
REO operations expense	(116)	) (103)	) (13)	) (243)	) (112)	) (131)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(248)	) (198)	) (50)	) (705)	) (563)	) (142)
Other expense	(270)	) (43)	) (227)	) (1,234)	) (199)	) (1,035)
Total non-interest expense	(1,099)	) (816)	) (283)	) (3,599)	) (2,267)	) (1,332)
Income (loss) before income tax benefit (expense)	(669)	) 3,037	(3,706)	) 6,197	10,837	(4,640)
Income tax benefit (expense)	194	(956)	) 1,150	(1,979)	) (3,374)	) 1,395
Net income (loss)	(475)	) 2,081	(2,556)	) 4,218	7,463	(3,245)
Other comprehensive income (loss), net of taxes and reclassification adjustments	(26)	) 705	(731)	) (60)	) 1,712	(1,772)
Comprehensive income (loss)	\$(501)	) \$2,786	\$(3,287)	) \$4,158	\$9,175	\$(5,017)

Effects of Interest-Rate Risk Management on Consolidated Statements of Comprehensive Income

We use derivatives primarily to manage the interest rate risk associated with our investments in financial assets and related liabilities. We use derivatives to hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, if rates increase and the duration of our assets extends more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into pay-fixed interest-rate swaps or selling Treasury-derivatives. If rates decrease and the duration of our assets shortens more than the duration of our liabilities, we would rebalance our interest rate exposure by entering into receive-fixed interest-rate swaps or purchasing Treasury-derivatives. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. For information about our interest-rate risk management, see “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.”

While our economic exposure to interest-rate risk is reduced, the accounting treatment for these assets and liabilities, including derivatives, creates volatility in our earnings when interest rates fluctuate. Some assets and liabilities are

measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. These measurement differences create interest rate volatility in our earnings that is not indicative of the underlying economics of our business.

During the three months ended September 30, 2015, derivative losses were \$4.2 billion, which included a \$0.5 billion loss for the accrual of periodic settlements, which is the net amount we accrued during the period for interest-rate swap payments we will make, and a \$3.6 billion loss for changes in fair value of our derivatives during the period. Approximately \$1.4 billion of the \$3.6 billion loss for changes in fair value of our derivatives was offset by changes in fair value of assets and liabilities that are measured at fair value, which are recognized in non-interest income (loss) and other comprehensive income (loss), net of taxes. The remaining \$2.2 billion of derivative losses, or \$1.5 billion after taxes, is attributable to assets and liabilities not measured at fair value. For information about our derivative gains (losses), see “Derivative Gains (Losses).”

Net Interest Income

Net interest income represents the difference between interest income and interest expense (which includes income from management and guarantee fees) and is a primary source of our revenue. For securitization trusts that are consolidated, we record interest income on the loans held by the trust and interest expense on the debt securities (e.g. single-family PCs) issued

Table of Contents

by the trust. The difference between the interest income on the loans and the interest expense on the debt represents the management and guarantee fee we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. The table below presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 5 — Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30,						
	2015			2014			
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	
(dollars in millions)							
Interest-earning assets:							
Cash and cash equivalents	\$ 11,849	\$ 1	0.04 %	\$ 9,842	\$ 1	0.04 %	
Federal funds sold and securities purchased under agreements to resell	53,046	18	0.13	43,205	7	0.06	
Mortgage-related securities:							
Mortgage-related securities	217,830	2,092	3.84	252,205	2,465	3.91	
Extinguishment of PCs held by Freddie Mac	(105,709)	(951)	(3.60)	(110,511)	(1,043)	(3.78)	
Total mortgage-related securities, net	112,121	1,141	4.07	141,694	1,422	4.01	
Non-mortgage-related securities	8,738	4	0.17	11,668	1	0.02	
Mortgage loans held by consolidated trusts ⁽¹⁾	1,601,069	14,032	3.51	1,539,913	14,148	3.68	
Unsecuritized mortgage loans ⁽¹⁾	156,248	1,563	4.00	167,683	1,643	3.92	
Total interest-earning assets	\$ 1,943,071	\$ 16,759	3.45	\$ 1,914,005	\$ 17,222	3.60	
Interest-bearing liabilities:							
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$ 1,621,197	\$(12,315)	(3.04)	\$ 1,558,023	\$(12,845)	(3.30)	
Extinguishment of PCs held by Freddie Mac	(105,709)	951	3.60	(110,511)	1,043	3.78	
Total debt securities of consolidated trusts held by third parties	1,515,488	(11,364)	(3.00)	1,447,512	(11,802)	(3.26)	
Other debt:							
Short-term debt	99,050	(40)	(0.16)	116,624	(35)	(0.12)	
Long-term debt	310,204	(1,559)	(2.01)	326,610	(1,647)	(2.01)	
Total other debt	409,254	(1,599)	(1.56)	443,234	(1,682)	(1.52)	
Total interest-bearing liabilities	1,924,742	(12,963)	(2.70)	1,890,746	(13,484)	(2.84)	
Expense related to derivatives ⁽²⁾	—	(53)	(0.01)	—	(75)	(0.02)	
Impact of net non-interest-bearing funding	18,329	—	0.03	23,259	—	0.03	
Total funding of interest-earning assets	\$ 1,943,071	\$(13,016)	(2.68)	\$ 1,914,005	\$(13,559)	(2.83)	
Net interest income/yield		\$ 3,743	0.77		\$ 3,663	0.77	
	Nine Months Ended September 30,						
	2015			2014			
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	

Interest-earning assets:

Cash and cash equivalents	\$ 12,458	\$ 6	0.06 %	\$ 14,188	\$ 2	0.02 %	
Federal funds sold and securities purchased under agreements to resell	50,278	39	0.11	41,645	17	0.06	

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Mortgage-related securities:						
Mortgage-related securities	231,969	6,728	3.87	260,172	7,629	3.91
Extinguishment of PCs held by Freddie Mac	(109,167)	(3,002)	(3.67)	(112,553)	(3,177)	(3.76)
Total mortgage-related securities, net	122,802	3,726	4.05	147,619	4,452	4.02
Non-mortgage-related securities	9,965	10	0.12	9,952	5	0.06
Mortgage loans held by consolidated trusts ⁽¹⁾	1,579,720	41,641	3.51	1,535,099	42,881	3.72
Unsecuritized mortgage loans ⁽¹⁾	161,628	4,792	3.95	172,311	4,965	3.84
Total interest-earning assets	\$1,936,851	\$50,214	3.46	\$1,920,814	\$52,322	3.63
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$1,600,556	\$(36,858)	(3.07)	\$1,551,918	\$(39,327)	(3.38)
Extinguishment of PCs held by Freddie Mac	(109,167)	3,002	3.67	(112,553)	3,177	3.76
Total debt securities of consolidated trusts held by third parties	1,491,389	(33,856)	(3.03)	1,439,365	(36,150)	(3.35)
Other debt:						
Short-term debt	107,941	(114)	(0.14)	117,795	(110)	(0.12)
Long-term debt	320,506	(4,709)	(1.96)	335,934	(5,156)	(2.05)
Total other debt	428,447	(4,823)	(1.50)	453,729	(5,266)	(1.55)
Total interest-bearing liabilities	1,919,836	(38,679)	(2.69)	1,893,094	(41,416)	(2.91)
Expense related to derivatives ⁽²⁾	—	(176)	(0.01)	—	(230)	(0.02)
Impact of net non-interest-bearing funding	17,015	—	0.02	27,720	—	0.04
Total funding of interest-earning assets	\$1,936,851	\$(38,855)	(2.68)	\$1,920,814	\$(41,646)	(2.89)
Net interest income/yield		\$11,359	0.78		\$10,676	0.74

(1) Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in average balances.

Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously (2) deferred in AOCI and have been reclassified to earnings as the interest expense associated with the hedged forecasted issuance of debt affects earnings.

Table of Contents

Net interest income increased in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. Net interest yield remained flat for the three months ended September 30, 2015 and increased for the nine months ended September 30, 2015 compared to the same periods in 2014. These results were driven by:

Higher management and guarantee fee income — Management and guarantee fee income increased in the three and nine months ended September 30, 2015, compared to the same periods in 2014, as the management and guarantee fees received on new business are higher than older vintages that continue to run off. The percentage of our net interest income derived from management and guarantee fees continues to increase, and we expect this trend will continue. We estimate that more than 40% of our net interest income during the three and nine months ended September 30, 2015 was derived from management and guarantee fee income. Net interest income includes the legislated 10 basis point increase in management and guarantee fees, which is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011. Net interest income includes \$247 million and \$699 million during the three and nine months ended September 30, 2015, respectively, compared to \$196 million and \$551 million during the three and nine months ended September 30, 2014, respectively, related to these fees.

Increased amortization of upfront fees and basis adjustments — During the three and nine months ended September 30, 2015, average mortgage interest rates declined as compared to the same periods in 2014. This decline in average mortgage interest rates caused an increase in borrower refinance activity. As borrowers refinance and our liquidation rate increases, the amortization of the upfront fees and basis adjustments associated with these mortgage loans and the securities that are backed by these mortgage loans increases, which generally has a positive effect on net interest income and net interest yield. The timing of the amortization for the mortgage loans differs from the timing of the amortization for the securities that are backed by these mortgage loans, because proceeds received from the mortgage loans backing these securities are remitted to the security holders at a later date. This timing difference can contribute to short-term volatility in net interest income period over period. In addition, our balance of deferred upfront fees and basis adjustments continues to increase as we add new business.

A decline in the average balance of our higher-yielding assets — The balance of our higher-yielding assets continues to decline, consistent with the required reduction of our mortgage-related investments portfolio. This decline has placed downward pressure on our net interest income and net interest yield and will likely continue to do so in the future.

Benefit (Provision) for Credit Losses

Our benefit (provision) for credit losses predominantly relates to single-family mortgage loans and reflects: (a) our estimate of incurred losses for newly impaired mortgage loans; (b) changes in our estimates of incurred losses for previously impaired mortgage loans; (c) a reduction of the portion of the loan loss reserve related to interest rate concessions as borrowers make payments under the terms of their mortgage loan modifications; and (d) reductions in our loan loss reserves associated with reclassifying mortgage loans from held-to-investment to held-for-sale.

The benefit for credit losses for the three and nine months ended September 30, 2015 was driven by the reclassification of mortgage loans from held-to-investment to held-for-sale. Excluding the effect of the reclassification of mortgage loans, the amount of our benefit (provision) for credit losses for the three and nine months ended September 30, 2015 was not significant. In the three and nine months ended September 30, 2015, we reclassified \$2.5 billion and \$10.6 billion, respectively, in UPB of certain seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. This reclassification and other related subsequent activity affects several line items. The benefit for credit losses due to the reclassification and other related subsequent activity was \$0.5 billion and \$2.0 billion in the three and nine months ended September 30, 2015, respectively, and was offset by: (a) lower-of-cost-or-fair-value losses of approximately \$0.3 billion and \$1.5 billion for the three and nine months ended September 30, 2015, respectively, which were included in other non-interest income; and (b) increased non-interest expense of approximately \$0.2 billion and \$0.9 billion for the three and nine months ended September 30, 2015, respectively, related to property taxes and insurance associated with these mortgage loans.

The provision for credit losses for the three months ended September 30, 2014 reflected a slight increase in our estimate of incurred losses on previously impaired mortgage loans due to declines in home prices in certain areas. The provision for credit losses for the nine months ended September 30, 2014 reflected an increase in our loan loss reserve for newly impaired mortgage loans that was slightly offset by improvements in our estimate of incurred losses on

previously impaired mortgage loans primarily due to the positive effect of an increase in home prices. Our single-family loan loss reserves declined from \$21.8 billion at December 31, 2014 to \$16.4 billion at September 30, 2015, primarily reflecting a high level of mortgage loan charge-offs related to our initial adoption of regulatory guidance that changed when we deem a mortgage loan uncollectible and the reclassification of certain seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale.

On January 1, 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets, including guidelines for recognizing charge-offs on certain single-family mortgage loans. Upon adoption, we changed the timing of when we deem certain single-family mortgage loans to

Table of Contents

be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for mortgage loans that have been deemed uncollectible prior to foreclosure. These additional charge-offs did not have a material impact on our comprehensive income during the nine months ended September 30, 2015, as we had already reserved for these losses in our allowance for loan losses in prior periods. This adoption resulted in a reduction to both the recorded investment of mortgage loans, held-for-investment, and our allowance for loan losses of \$1.9 billion on January 1, 2015.

As of September 30, 2015, approximately 64% of the loan loss reserves for single-family mortgage loans related to interest rate concessions associated with TDRs. A concession can result from various changes in a mortgage loan's contractual terms, but generally arises from a reduction in a mortgage loan's contractual interest rate when a mortgage loan is modified. Due to the large number of mortgage loan modifications completed in recent years, our loan loss reserves attributable to TDRs remain high.

Most of our modified mortgage loans were current and performing at September 30, 2015. However, we establish a reserve for TDR mortgage loans at the time of modification that largely relates to the reduction in the contractual interest rate of the mortgage loan for its remaining term. The portion of the reserve related to the interest rate concession is generally reduced over time as the borrower makes payments under the terms of the modification. We expect our loan loss reserves associated with existing TDRs will continue to decline over time as borrowers continue to make monthly payments under the modified terms and the interest rate concessions are recognized as income. Mortgage loans that have been individually evaluated for impairment, such as modified mortgage loans, generally have a higher associated loan loss reserve than mortgage loans that have been collectively evaluated for impairment. As of September 30, 2015 and December 31, 2014, the recorded investment of single-family impaired mortgage loans with specific reserves recorded was \$88.3 billion and \$95.1 billion, respectively, and the loan loss reserves associated with these mortgage loans were \$14.8 billion and \$17.8 billion, respectively.

The table below summarizes our net investment for individually impaired single-family mortgage loans on our consolidated balance sheets for which we have recorded a specific reserve.

Table 6 — Single-Family Impaired Mortgage Loans with Specific Reserve Recorded

	2015		2014	
	Number of Mortgage Loans	Amount ⁽¹⁾	Number of Mortgage Loans	Amount
	(dollars in millions)			
TDRs, at January 1,	539,590	\$94,401	514,497	\$92,505
New additions	44,439	6,176	61,345	8,891
Repayments, charge-offs, and reclassifications to/from held-for-sale	(52,947	) (10,695	) (20,972	) (3,802
Foreclosure transfers and foreclosure alternatives	(14,625	) (2,304	) (19,432	) (3,356
TDRs, at September 30,	516,457	87,578	535,438	94,238
Mortgage loans impaired upon purchase	10,327	747	10,308	785
Total impaired mortgage loans with specific reserve	526,784	88,325	545,746	95,023
Total allowance for loan losses of individually impaired single-family mortgage loans		(14,847	)	(18,199
Net investment, at September 30,		\$73,478		\$76,824

⁽¹⁾ The net investment amount for 2015 includes charge-offs related to our January 1, 2015 adoption of regulatory guidance that changed when we deem mortgage loans to be uncollectible.

See "NOTE 5: IMPAIRED MORTGAGE LOANS" for further information about our TDRs and non-accrual and other impaired mortgage loans.

Table of Contents

The table below provides information about the UPB of TDRs and non-accrual mortgage loans on our consolidated balance sheets.

Table 7 — TDRs and Non-Accrual Mortgage Loans

	September 30, 2015	December 31, 2014	September 30, 2014
	(dollars in millions)		
TDRs on accrual status:			
Single-family	\$82,830	\$82,373	\$82,152
Multifamily	339	535	597
Subtotal —TDRs on accrual status	83,169	82,908	82,749
Non-accrual mortgage loans:			
Single-family	24,342	32,745	34,145
Multifamily ⁽¹⁾	242	385	411
Subtotal — non-accrual mortgage loans	24,584	33,130	34,556
Total TDRs and non-accrual mortgage loans ⁽²⁾	\$107,753	\$116,038	\$117,305
Loan loss reserves associated with:			
TDRs on accrual status	\$12,791	\$13,749	\$14,079
Non-accrual mortgage loans	2,975	6,966	7,336
Total loan loss reserves associated with TDRs and non-accrual mortgage loans	\$15,766	\$20,715	\$21,415
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to annualized net charge-offs for single-family mortgage loans	2.9	2.7	3.1
Ratio of total loan loss reserves to annualized net charge-offs for single-family mortgage loans	8.2	5.6	6.3
	Nine Months Ended September 30,		
	2015		2014
	(in millions)		
Foregone interest income on TDR and non-accrual mortgage loans:			
Single-family	\$2,172		\$2,574
Multifamily	3		4
Total foregone interest income on TDR and non-accrual mortgage loans	\$2,175		\$2,578

(1) Includes \$242 million, \$385 million, and \$402 million in UPB of mortgage loans that were current as of September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

As of January 1, 2015, we adopted regulatory guidance that changed when we deem mortgage loans to be uncollectible. As of September 30, 2015, there was \$6.4 billion in UPB of our TDR and non-accrual mortgage loans, of which we had charged-off \$1.8 billion during the nine months ended September 30, 2015 that reduced our recorded investment in these mortgage loans.

Credit Loss Performance

Our single-family charge-offs, gross, were higher during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to our adoption on January 1, 2015 of regulatory guidance that changed when we deem a mortgage loan to be uncollectible. The level of charge-offs should decline as we continue our loss mitigation activities and our efforts to sell seriously delinquent single-family mortgage loans. Our single-family charge-offs, gross, were lower during the three months ended September 30, 2015 compared to the three months

ended September 30, 2014 primarily due to lower REO acquisitions.

The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and mortgage loans underlying our non-consolidated mortgage-related financial guarantees.

Table of Contents

Table 8 — Credit Loss Performance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
REO				
REO balances, net:				
Single-family	\$1,787	\$2,911	\$1,787	\$2,911
Multifamily	8	—	8	—
Total	\$1,795	\$2,911	\$1,795	\$2,911
REO operations expense (income):				
Single-family	\$116	\$109	\$243	\$120
Multifamily	—	(6)	—	(8)
Total	\$116	\$103	\$243	\$112
Charge-offs				
Single-family:				
Charge-offs, gross ⁽¹⁾	\$703	\$1,109	\$4,558	\$3,826
Recoveries ⁽²⁾	(177)	(190)	(547)	(1,100)
Single-family, net	\$526	\$919	\$4,011	\$2,726
Multifamily:				
Charge-offs, gross	\$3	\$—	\$9	\$2
Recoveries	—	(1)	—	(1)
Multifamily, net	\$3	\$(1)	\$9	\$1
Total Charge-offs:				
Charge-offs, gross	\$706	\$1,109	\$4,567	\$3,828
Recoveries	(177)	(191)	(547)	(1,101)
Total Charge-offs, net	\$529	\$918	\$4,020	\$2,727
Credit Losses:				
Single-family	\$642	\$1,028	\$4,254	\$2,846
Multifamily	3	(7)	9	(7)
Total	\$645	\$1,021	\$4,263	\$2,839
Total (in bps) ⁽³⁾	13.8	22.6	30.7	20.9

Charge-offs include \$23 million and \$21 million during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and \$75 million and \$59 million during the nine months ended (1) September 30, 2015 and the nine months ended September 30, 2014, respectively, related to losses on mortgage loans purchased under financial guarantees that were recorded within other expenses on our consolidated statements of comprehensive income.

Includes \$0.5 billion during the nine months ended September 30, 2014 related to repurchase requests made to our seller/servicers (including \$0.3 billion related to settlement agreements with certain sellers to release specified (2) mortgage loans from certain repurchase obligations in exchange for one-time cash payments). Excludes certain recoveries, such as pool insurance, which are included in non-interest income on our consolidated statements of comprehensive income.

Includes charge-offs of \$1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. (3) Excluding this amount, the total credit losses (in bps) during the nine months ended September 30, 2015 were 16.8. Our 2005-2008 Legacy single-family book comprised approximately 11% of our single-family credit guarantee portfolio, based on UPB, at September 30, 2015; however, these mortgage loans accounted for approximately 80% of our credit losses during the nine months ended September 30, 2015. Our single-family credit losses during the nine

months ended September 30, 2015 were highest in Florida and New Jersey. Collectively, these two states comprised approximately 34% of our total credit losses during the nine months ended September 30, 2015.

At September 30, 2015, mortgage loans in states with a judicial foreclosure process comprised 39% of our single-family credit guarantee portfolio, based on UPB, while mortgage loans in these states contributed to approximately 72% of our credit losses during the nine months ended September 30, 2015. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. We expect the portion of our credit losses related to mortgage loans in states with judicial foreclosure processes will remain high in the near term as the substantial backlog of mortgage loans awaiting court proceedings in those states transitions to REO or other loss events. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for additional information about our credit losses.

The table below provides information on the severity of losses we experienced on mortgage loans in our single-family credit guarantee portfolio.

Table of Contents

Table 9 — Severity Ratios for Single-Family Mortgage Loans

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Severity ratios:					
REO dispositions and third-party sales ⁽¹⁾	34.3	% 33.3	% 34.5	% 33.8	%
Short sales	29.8	32.0	30.3	31.6	

Calculated as combined collateral losses on REO dispositions and third-party sales at foreclosure auction, divided by the combined UPB of the related mortgage loans. Includes selling and repair expenses. Excludes recoveries related to settlement agreements with certain sellers to release specified mortgage loans from certain repurchase obligations in exchange for one-time cash payments.

In recent periods, third-party sales at foreclosure auction have comprised an increasing portion of foreclosure transfers. Third-party sales at foreclosure auction allow us to avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition. Our severity ratios have remained relatively stable during the 2015 periods, compared to the 2014 periods. These severity ratios are influenced by several factors, including the geographic location of the property and the related selling expenses.

Non-Interest Income (Loss)

Gains (Losses) on Extinguishment of Debt Securities of Consolidated Trusts

During the three and nine months ended September 30, 2015, we purchased single-family PCs which resulted in an extinguishment of debt securities of consolidated trusts with a UPB of \$15.6 billion and \$40.6 billion, respectively. During the three and nine months ended September 30, 2014, we purchased single-family PCs which resulted in an extinguishment of debt securities of consolidated trusts with a UPB of \$14.8 billion and \$37.6 billion, respectively. Losses recognized in the 2015 and 2014 periods as a result of these purchases were driven by interest rate declines between the time of issuance and the time of repurchase of these debt securities.

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See “NOTE 9: DERIVATIVES — Table 9.2 — Gains and Losses on Derivatives” for information about gains and losses related to specific categories of derivatives.

We did not have any derivatives in hedge accounting relationships at September 30, 2015 or December 31, 2014.

However, AOCI includes amounts related to closed cash flow hedges.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are included in comprehensive income, while fair value changes associated with some of the assets and liabilities being economically hedged are not. These differences in measurement (i.e., some are measured at amortized cost, while others are measured at fair value) create volatility in our earnings when interest rates fluctuate. This volatility is not indicative of the underlying economics of our business. The mix of our derivative portfolio, in conjunction with the mix of our assets and liabilities, also affects the volatility of comprehensive income.

Table 10 — Derivative Gains (Losses)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in millions)			
Interest-rate swaps	\$(4,693)	) \$(184)	) \$(2,514)	) \$(3,505)
Option-based derivatives	1,171	) 78	) 722	) 344
Other derivatives ⁽¹⁾	(114)	) 116	) (9)	) 241
Accrual of periodic settlements	(536)	) (627)	) (1,639)	) (1,974)
Total	\$(4,172)	) \$(617)	) \$(3,440)	) \$(4,894)

(1) Primarily includes futures, commitments, credit derivatives and swap guarantee derivatives.

Gains (losses) on our derivative portfolio include both derivative fair value changes and the accrual of periodic cash settlements. Gains (losses) on our derivative portfolio can change based on changes in interest rates, implied volatility, and the mix and balance of products in our derivative portfolio. The mix and balance of products in our derivative portfolio change from period to period as we respond to changing interest rate environments, as well as changes in our asset and liability balances and characteristics.

While our sensitivity to interest rates on an economic basis remains low as measured by our models, our exposure to earnings volatility resulting from our use of derivatives has increased in recent periods as we have changed the mix of our derivatives to align with the changing duration of our economically hedged assets and liabilities.

Table of Contents

During the three and nine months ended September 30, 2015, we recognized net losses on derivatives primarily as a result of a decline in longer-term interest rates. During these periods, we recognized fair value losses on our interest-rate swaps of \$4.7 billion and \$2.5 billion, respectively, and losses of \$0.5 billion and \$1.6 billion, respectively, related to the accrual of periodic settlements as we were a net payer based on the terms of the instruments. These losses were partially offset by fair value gains on our option-based derivatives of \$1.2 billion and \$0.7 billion, respectively.

During the three and nine months ended September 30, 2014, we recognized net losses on derivatives primarily as a result of a flattening of the yield curve as short-term interest rates increased and longer-term interest rates declined. During these periods, we recognized fair value losses on our interest-rate swaps of \$0.2 billion and \$3.5 billion, respectively and net losses of \$0.6 billion and \$2.0 billion, respectively, related to the accrual of periodic settlements as we were a net payer on our interest-rate swaps based on the terms of the instruments.

Impairments of Available-For-Sale Securities

During the three and nine months ended September 30, 2015 and 2014, we recorded net impairments of available-for-sale securities recognized in earnings related to non-agency mortgage-related securities. The impairments during all periods were mostly driven by the inclusion of additional securities in the population of available-for-sale securities in an unrealized loss position that we intend to sell. The addition of securities to this population during these periods generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. During the three and nine months ended September 30, 2014, the impairments included amounts where our intent to sell changed as a result of the settlement of a non-agency mortgage-related securities lawsuit where a counterparty agreed to purchase the securities as part of the settlement. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities,” and “NOTE 7: INVESTMENTS IN SECURITIES” for additional information.

Other Gains (Losses) on Investment Securities Recognized in Earnings

The table below presents our other gains (losses) on investment securities recognized in earnings.

Table 11 — Other Gains (Losses) on Investment Securities Recognized in Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Gains (losses) on trading securities	\$(56	) \$(216	) \$(329	) \$(183
Gains (losses) on sales of available-for-sale securities	312	107	1,154	1,212
Total	\$256	\$(109	) \$825	\$1,029

The losses on trading securities during the 2015 periods were primarily due to reductions in the fair value of securities carried at a premium (i.e., fair value exceeds par value), as these securities moved closer to their maturity. These losses were partially offset by gains due to declines in interest rates. As of September 30, 2015, our agency securities classified as trading were generally in an unrealized gain position, so we expect to recognize losses on these securities as they approach maturity and move closer to par.

The gains on sales of available-for-sale securities during the 2015 periods were primarily due to sales of non-agency mortgage-related securities consistent with our efforts to reduce the amount of less liquid assets we hold. The gains during the 2014 periods primarily resulted from sales related to our structuring activities. The structuring activities include resecuritizing existing agency securities into REMICs and selling some or all of the REMIC tranches.

Other Income (Loss)

The table below summarizes the significant components of other income (loss).

Table of Contents

Table 12 — Other Income (Loss)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(in millions)			
Other income (loss):				
Non-agency mortgage-related securities settlements	\$—	\$1,187	\$—	\$6,084
Gains (losses) on mortgage loans	(197	) 168	(1,321	) 383
Recoveries on mortgage loans acquired with deteriorated credit quality ⁽¹⁾	30	53	95	162
Management and guarantee fee-related income, net ⁽²⁾	85	40	321	184
All other	207	348	473	516
Total other income (loss)	\$125	\$1,796	\$(432	) \$7,329

(1) Primarily relates to mortgage loans acquired with deteriorated credit quality prior to 2010. Consequently, our recoveries on these mortgage loans will generally decline over time.

(2) Primarily relates to securitized mortgage loans that we guarantee and have not consolidated the securitization trusts on our consolidated balance sheets.

Non-Agency Mortgage-Related Securities Settlements

We received proceeds from ten settlements of lawsuits regarding our investment in certain non-agency mortgage-related securities during the nine months ended September 30, 2014. We did not have any such settlements in the nine months ended September 30, 2015.

Gains (Losses) on Mortgage Loans

Gains (losses) on mortgage loans consist of three components:

- Gains (losses) on mortgage loans held-for-sale related to lower-of-cost-or-fair-value adjustments were \$(0.3) billion and \$0.1 billion during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and were \$(1.5) billion and \$(0.1) billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. The higher losses during the 2015 periods were primarily due to a larger volume of mortgage loans reclassified from held-for-investment to held-for-sale during the 2015 periods, compared to the 2014 periods.

During the three and nine months ended September 30, 2015, we reclassified \$2.5 billion and \$10.6 billion, respectively, in UPB of single-family mortgage loans from held-for-investment to held-for-sale, compared to \$0.7 billion in UPB during the nine months ended September 30, 2014. We did not have any such reclassification during the three months ended September 30, 2014.

During the three and nine months ended September 30, 2015, we reclassified \$1.8 billion and \$2.1 billion, respectively, in UPB of multifamily mortgage loans from held-for-investment to held-for-sale. We did not have any such reclassification during the comparable 2014 periods.

We held \$7.1 billion and \$2.1 billion in UPB of single-family and multifamily mortgage loans, respectively, for sale and evaluated at lower-of-cost-or-fair-value on our consolidated balance sheet at September 30, 2015.

Gains (losses) realized on the sale of mortgage loans were not significant for the three and nine months ended September 30, 2015, or the comparable 2014 periods, as gains from declining interest rates were offset by losses from widening spreads.

We sold \$6.0 billion and \$21.2 billion in UPB of multifamily mortgage loans during the three and nine months ended September 30, 2015, respectively. We sold \$4.5 billion and \$12.9 billion in UPB of multifamily mortgage loans during the comparable 2014 periods.

We sold \$0.6 billion and \$1.9 billion in UPB of single-family mortgage loans during the three and nine months ended September 30, 2015, respectively. We sold \$0.6 billion in UPB of single-family mortgage loans during the comparable 2014 periods.

Gains resulting from changes in the fair value of multifamily mortgage loans for which we have elected the fair value option were \$0.2 billion and \$0.3 billion during the three and nine months ended September 30, 2015, respectively, compared to \$0.1 billion and \$0.4 billion during the three and nine months ended September 30, 2014, respectively. These gains were primarily due to declining interest rates, partially offset by losses due to widening spreads.

Table of Contents

All Other

All other income (loss) includes income recognized from transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, changes in fair value of STACR debt notes (as we have elected to carry certain of these notes at fair value), and other miscellaneous income. The decrease in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to lower fair value gains on certain STACR debt notes as credit spreads widened to a lesser extent and lower compensatory fees assessed on servicers in the 2015 period. The decrease in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 was primarily due to lower compensatory fees assessed on servicers and higher costs associated with the common securitization platform in the 2015 period. This decrease was partially offset by an increase in certain credit enhancement recoveries in the 2015 period associated with single-family mortgage loans. Previously, these recoveries were recognized within our provision for credit losses.

Non-Interest Expense

The table below summarizes the components of non-interest expense.

Table 13 — Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Administrative expense:				
Salaries and employee benefits	\$231	\$231	\$742	\$687
Professional services	130	128	361	392
Occupancy expense	14	16	40	43
Other administrative expense	90	97	274	271
Total administrative expense	465	472	1,417	1,393
REO operations expense	116	103	243	112
Temporary Payroll Tax Cut Continuation Act of 2011 expense	248	198	705	563
Other expense	270	43	1,234	199
Total non-interest expense	\$1,099	\$816	\$3,599	\$2,267

Administrative Expense

Administrative expense was relatively flat during the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. During the nine months ended September 30, 2015, salaries and employee benefits expense increased primarily because of costs associated with the termination of our pension plans. This increase was partially offset by lower professional services expense driven by lower expenses associated with FHFA-led lawsuits regarding our investments in certain residential non-agency mortgage-related securities.

REO Operations Expense

Our REO operations expense includes: (a) REO property expenses; (b) net gains or losses incurred on disposition of REO properties; (c) adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell; and (d) recoveries from mortgage insurance and other credit enhancements. The increases in REO operations expense during the 2015 periods were primarily due to lower gains on REO dispositions and lower recoveries from mortgage insurance during the 2015 periods. For more information on our REO activity, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — REO, Net.”

Temporary Payroll Tax Cut Continuation Act of 2011 Expense

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, we increased the management and guarantee fee on single-family mortgage loans sold to us by 10 basis points in April 2012. We refer to this fee increase, which we pay to Treasury on a quarterly basis, as the legislated 10 basis point increase in management and guarantee fees.

As of September 30, 2015 and September 30, 2014, mortgage loans with an aggregate UPB of \$1.0 trillion (or 60% of the single-family credit guarantee portfolio) and \$820.3 billion, respectively, were subject to these fees. As of September 30, 2015, the cumulative total of the amounts paid and due to Treasury for these fees was \$2.1 billion. We expect the amount of these fees to continue to increase in the future as we add new business and increase the UPB of mortgage loans subject to these fees.

Other Expense

Other expense includes property taxes and insurance associated with mortgage loans reclassified as held-for-sale, HAMP servicer incentive fees, costs related to terminations and transfers of mortgage loan servicing, and other miscellaneous expenses. The increases during the 2015 periods were primarily driven by property taxes and insurance associated with mortgage loans reclassified as held-for-sale. Property tax and insurance amounts are included in loan loss reserves while the mortgage loans are classified as held-for-investment.

Table of Contents

Beginning January 1, 2015, FHFA directed us to allocate funds to the Housing Trust Fund and Capital Magnet Fund. During the nine months ended September 30, 2015, we completed \$305.6 billion of new business purchases subject to this allocation and accrued \$128 million of related expense. We expect to pay these amounts (and any additional amounts to be accrued based on our new business purchases in the fourth quarter of 2015) in February 2016.

Other Comprehensive Income (Loss)

The table below presents components of other comprehensive income (loss) reported in our condensed consolidated statements of comprehensive income.

Table 14 — Components of Other Comprehensive Income (Loss)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2015	2014
	(in millions)			
Other comprehensive income, excluding reclassifications and amortization	\$217	\$750	\$754	\$2,289
Other comprehensive income, amortization due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(108)	(132)	(354)	(385)
Reclassifications from AOCI	(135)	87	(460)	(192)
Total	\$ (26)	\$705	\$ (60)	\$1,712

Other comprehensive income (loss) for the three and nine months ended September 30, 2015 was primarily driven by the reclassification of unrealized gains in AOCI to realized gains on investment activity resulting from sales of available-for-sale mortgage-related securities. Excluding the reclassification of these gains, net unrealized gains for the three months ended September 30, 2015 were due to a decline in interest rates, partially offset by spread widening. Excluding the reclassification of these gains, net unrealized gains for the nine months ended September 30, 2015 were due to a decline in interest rates and spread tightening.

Other comprehensive income for the three and nine months ended September 30, 2014 was driven by fair value gains on our available-for-sale securities resulting from a decline in longer-term interest rates coupled with the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity.

For more information about the components of other comprehensive income (loss) see "Table 11.1 — Changes in AOCI by Component, Net of Tax."

Segment Earnings

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. Certain activities that are not part of a reportable segment are included in the All Other category.

We evaluate segment performance and allocate resources based on a Segment Earnings approach. Segment financial performance is measured as follows:

- Our Single-family Guarantee segment is measured on its contribution to GAAP net income (loss);
- Our Investments segment is measured on its contribution to GAAP comprehensive income (loss); and
- Our Multifamily segment is measured on its contribution to GAAP comprehensive income (loss).

In presenting Segment Earnings, we make significant reclassifications among certain financial statement line items to reflect measures of management and guarantee fee income on guarantees and net interest income on investments that are in line with how we manage our business. We also allocate certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

As a result of these reclassifications and allocations, Segment Earnings for our reportable segments should not be used as a substitute for net income (loss) as determined in accordance with GAAP. Our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that Segment Earnings provides us with meaningful metrics to assess the financial performance of each segment and our company as a whole.

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In the second quarter of 2015, we changed our Segment Earnings definition associated with the revenue and expense related to the Temporary Payroll Tax Cut Continuation Act of 2011. As a result of this change, the revenue and expense related to the legislated 10 basis point increase in management and guarantee fee income are now netted within the Single-family Guarantee segment. The purpose of this change is to better reflect how management evaluates the Single-family Guarantee segment. Prior period results have been revised to conform with the current period presentation. We reclassified \$198 million and \$563 million of Temporary Payroll Tax Cut Continuation Act of 2011 expense into management and guarantee fee income for the three months ended September 30, 2014 and the nine months ended September 30, 2014, respectively.

Table of Contents

The table below provides UPB information about our various segment mortgage and credit risk portfolios at September 30, 2015 and December 31, 2014.

Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios

	September 30, 2015 (in millions)	December 31, 2014
Segment mortgage portfolios:		
Single-family Guarantee — Managed loan portfolio ^b :		
Single-family unsecuritized seriously delinquent mortgage loans	\$21,352	\$28,738
Single-family Freddie Mac mortgage-related securities held by us	149,968	158,215
Single-family Freddie Mac mortgage-related securities held by third parties	1,458,057	1,397,050
Single-family other guarantee commitments	2,954	16,806
Total Single-family Guarantee — Managed loan portfolio	1,632,331	1,600,809
Investments — Mortgage investments portfolio:		
Single-family unsecuritized performing mortgage loans	77,843	82,778
Single-family Freddie Mac mortgage-related securities	149,968	158,215
Non-agency mortgage-related securities	30,020	44,230
Non-Freddie Mac agency mortgage-related securities	14,063	16,341
Total Investments — Mortgage investments portfolio	271,894	301,564
Multifamily — Guarantee portfolio:		
Multifamily Freddie Mac mortgage-related securities held by us	5,059	3,326
Multifamily Freddie Mac mortgage-related securities held by third parties	93,589	78,495
Multifamily other guarantee commitments	9,597	9,341
Total Multifamily — Guarantee portfolio	108,245	91,162
Multifamily — Mortgage investments portfolio:		
Multifamily investment securities portfolio	19,679	25,156
Multifamily unsecuritized mortgage loan portfolio	54,220	52,956
Total Multifamily — Mortgage investments portfolio	73,899	78,112
Total Multifamily portfolio	182,144	169,274
Less: single-family and multifamily Freddie Mac securities held by us	(155,027	) (161,541
Total mortgage portfolio	\$ 1,931,342	\$ 1,910,106
Credit risk portfolios:		
Single-family credit guarantee portfolio: ⁽¹⁾		
Single-family mortgage loans, on-balance sheet	\$ 1,687,770	\$ 1,645,872
Non-consolidated Freddie Mac mortgage-related securities	5,617	6,233
Other guarantee commitments	2,954	16,806
Less: HFA initiative-related guarantees	(2,715	) (3,357
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates	(365	) (433
Total single-family credit guarantee portfolio	\$ 1,693,261	\$ 1,665,121
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	\$ 55,957	\$ 53,480
Non-consolidated Freddie Mac mortgage-related securities	96,910	81,296
Other guarantee commitments	9,597	9,341
Less: HFA initiative-related guarantees	(711	) (772
Total multifamily mortgage portfolio	\$ 161,753	\$ 143,345

The balances of the mortgage-related securities in the Single-family Guarantee managed loan portfolio are based (1) on the UPB of the security, whereas the balances of our single-family credit guarantee portfolio presented in this report are based on the UPB of the mortgage loans underlying the related security.

Table of Contents

Segment Earnings — Results

Single-Family Guarantee

The table below presents the Segment Earnings of our Single-family Guarantee segment.

Table 16 — Segment Earnings and Key Metrics — Single-Family Guarantee

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	2015	2014	2015	2014
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense)	\$52	\$19	\$(59)	\$(27)
Benefit (provision) for credit losses	360	(818)	1,335	(742)
Non-interest income:				
Management and guarantee fee income	1,345	1,143	4,066	3,201
Other non-interest income (loss)	(142)	422	(1,088)	450
Total non-interest income	1,203	1,565	2,978	3,651
Non-interest expense:				
Administrative expense	(309)	(302)	(938)	(855)
REO operations expense	(116)	(109)	(243)	(120)
Other non-interest expense	(257)	(40)	(1,196)	(159)
Total non-interest expense	(682)	(451)	(2,377)	(1,134)
Segment adjustments	(62)	(75)	(202)	(233)
Segment Earnings before income tax expense	871	240	1,675	1,515
Income tax expense	(280)	(44)	(535)	(438)
Segment Earnings, net of taxes	591	196	1,140	1,077
Total other comprehensive income (loss), net of taxes	—	(1)	(1)	(1)
Total comprehensive income	\$591	\$195	\$1,139	\$1,076
Key metrics:				
Balances and Volume (dollars in billions):				
Average balance of single-family credit guarantee portfolio and HFA guarantees	\$1,683	\$1,653	\$1,673	\$1,652
Issuance — Single-family credit guarantees	\$99	\$78	\$281	\$189
Fixed-rate products — Percentage of purchases	96	% 94	% 96	% 94
Liquidation rate — Single-family credit guarantees (annualized) ⁽¹⁾	20	% 17	% 21	% 15
Average Management and Guarantee Fee Rate (in bps, annualized)				
Segment Earnings management and guarantee fee income ⁽²⁾	32.0	27.6	32.4	25.8
Management and guarantee fee charged on new acquisitions ⁽³⁾	44.0	47.2	44.3	47.4
Credit:				
Serious delinquency rate, at period end	1.41	% 1.96	% 1.41	% 1.96
REO inventory, at end of period (number of properties)	17,780	29,344	17,780	29,344
Single-family credit losses, in bps (annualized) ⁽⁴⁾	15.1	24.6	33.5	22.7
Market:				
Single-family mortgage loan debt outstanding (total U.S. market, in billions) ⁽⁵⁾	\$9,901	\$9,871	\$9,901	\$9,871

(1) Includes our removal of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans from PC pools. Also includes terminations of other guarantee commitments.

(2) Calculated based on the contractual management and guarantee fee rate as well as amortization of delivery and other upfront fees (using the original contractual maturity date of the related mortgage loans) for the entire single-family credit guarantee portfolio.

(3) Represents the estimated average rate of management and guarantee fees for new acquisitions during the period assuming amortization of delivery fees using the estimated life of the related mortgage loans rather than the original contractual maturity date of the related loans, net of expense for the legislated 10 basis point increase in management and guarantee fees. Prior periods have been revised to conform with the current period presentation.

(4) Includes charge-offs of \$1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. Excluding this amount, the single-family credit losses, in bps (annualized) during the nine months ended September 30, 2015 were 18.2.

(5) Source: Federal Reserve Financial Accounts of the United States of America dated September 18, 2015. The outstanding amounts reflect the balances as of June 30, 2015.

Segment Earnings

The primary drivers of Segment Earnings for the Single-family Guarantee segment generally consist of management and guarantee fee income and the benefit (provision) for credit losses.

Segment Earnings for our Single-family Guarantee segment increased during the 2015 periods, compared to the same periods of 2014, driven by increased management and guarantee fee income offset by losses resulting from the net effect of our

Table of Contents

reclassification of certain seriously delinquent mortgage loans from held-for-investment to held-for-sale in the 2015 periods and related subsequent activity.

Single-Family Mortgage Loan Volume

Origination volumes in the U.S. residential mortgage loan market increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, driven by an increase in the volume of refinance mortgage loans. We attribute this increase to lower average long-term mortgage loan interest rates during the nine months ended September 30, 2015 compared to prior periods.

Our purchase activity during the nine months ended September 30, 2015 increased to \$274.9 billion in UPB, compared to \$184.3 billion in UPB during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared to 46% during the nine months ended September 30, 2014.

Credit Risk Transfer Activity

During the nine months ended September 30, 2015, we completed 14 credit risk transfer transactions that transferred a portion of the credit risk associated with \$128.5 billion in UPB of mortgage loans in our New single-family book from us to third-party investors, insurers, and selected sellers. These transactions consisted of:

Six STACR debt note transactions: All of these transactions transferred a portion of the first loss position, in addition to a portion of the mezzanine loss position, associated with the related reference pool;

Six ACIS transactions: Three of these transactions transferred a portion of the first loss position;

One whole loan security: This transaction uses a senior/subordinated security structure. We completed our first transaction in July 2015; and

One seller indemnification transaction: This transaction is an agreement where the seller will absorb first losses on the related single-family mortgage loans based upon a predetermined percentage. The indemnification amount was fully collateralized. We completed our first transaction in July 2015.

Our scorecard goal is measured by FHFA based on the amount of risk we transfer in the specific transactions which differs from the total UPB of the underlying reference pools. We expect to meet our 2015 Conservatorship Scorecard goal of completing credit risk transfer transactions of at least \$120 billion in UPB of single-family mortgage loans.

Single-Family Credit Guarantee Portfolio

Our New single-family book comprised 65% of our overall single-family credit guarantee portfolio as of September 30, 2015, compared to 60% as of December 31, 2014.

There were approximately 10.7 million and 10.6 million mortgage loans in our single-family credit guarantee portfolio at September 30, 2015 and December 31, 2014, respectively, including 2.0 million and 2.1 million of relief refinance mortgage loans, respectively.

The average UPB of mortgage loans in our single-family credit guarantee portfolio was approximately \$159,000 and \$156,000 at September 30, 2015 and December 31, 2014, respectively.

We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2015 compared to the end of 2014.

Credit Quality and Mortgage Loan Performance

The serious delinquency rate on our single-family credit guarantee portfolio was 1.41% and 1.88% at September 30, 2015 and December 31, 2014, respectively. The serious delinquency rate for the New single-family book was 0.20% as of September 30, 2015 and its credit losses were \$117 million during the nine months ended September 30, 2015.

During the nine months ended September 30, 2015, our serious delinquency rate continued the decline that began in 2010, primarily due to lower volumes of single-family mortgage loans becoming seriously delinquent and continued loss mitigation (including sales of non-performing mortgage loans) and foreclosure activities for mortgage loans in the Legacy single-family books. See "Table 31 — Single-Family Serious Delinquency Rate Trend" for the recent trend in our serious delinquency rates.

The total number of our mortgage loans delinquent for more than one year declined approximately 28% during the nine months ended September 30, 2015. In addition, we sold certain seriously delinquent unsecuritized single-family mortgage loans with an aggregate UPB of \$1.9 billion, which contributed to this decline.

Our single-family REO inventory (measured in number of properties) declined 31% from December 31, 2014 to September 30, 2015, primarily due to our loss mitigation efforts and a larger proportion of properties being sold to third parties at foreclosure auction.

Table of Contents

Key Drivers of Segment Earnings

Segment Earnings management and guarantee fee income increased during the 2015 periods, compared to the same periods of 2014. These increases were primarily due to higher amortization of upfront fees and increased income from monthly base fees. The higher amortization was driven by a higher liquidation rate resulting from a lower interest rate environment. Income from monthly base fees increased because a higher percentage of our single-family credit guarantee portfolio consists of mortgage loans we acquired in recent years, which have a higher associated management and guarantee fee. Management and guarantee fees charged on new acquisitions decreased during the 2015 periods, compared to the same periods in 2014, due to a combination of competitive pricing and higher market-adjusted pricing costs based on the price performance of our PCs relative to Fannie Mae securities. Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the price performance of our PCs relative to comparable Fannie Mae securities (we refer to this as market-adjusted pricing). A decline in this price performance could adversely affect our segment financial results. See "RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates" in our 2014 Annual Report for additional information.

Segment Earnings benefit (provision) for credit losses improved during the 2015 periods, compared to the same periods of 2014. The benefit for credit losses during the 2015 periods is primarily due to a reduction of loan loss reserves associated with the reclassification of mortgage loans from held-for-investment to held-for-sale during these periods. The 2015 periods also benefited from decreases in newly impaired mortgage loans while the 2014 periods benefited from settlement agreements. Excluding the effect of mortgage loan reclassifications and other related subsequent activity in the 2015 periods and settlement agreements in the 2014 periods, the benefit for credit losses increased primarily due to decreases in newly impaired loans. Segment Earnings benefit for credit losses in all periods presented also includes benefits associated with the positive payment performance of our TDR mortgage loans. Segment Earnings other non-interest income (loss) declined during the 2015 periods, compared to the same periods of 2014, primarily due to increased lower-of-cost-or-fair-value adjustments on single-family mortgage loans that were reclassified from held-for-investment to held-for-sale.

Segment Earnings other non-interest expense increased during the 2015 periods, compared to the same periods of 2014, primarily due to property taxes and insurance associated with mortgage loans reclassified as held-for-sale and an accrual for expenses related to the Housing Trust and Capital Magnet Funds during the 2015 periods. REO operations expense increased during the nine months ended September 30, 2015 driven by lower gains on dispositions of REO properties due to decreased volume and lower recoveries.

During the nine months ended September 30, 2015, we reclassified \$10.6 billion in UPB of seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. This reclassification and other related subsequent activity resulted in a pre-tax Segment Earnings net loss of approximately \$0.4 billion.

Table of Contents

Investments

The table below presents the Segment Earnings of our Investments segment.

Table 17 — Segment Earnings and Key Metrics — Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(dollars in millions)				
Segment Earnings:				
Net interest income	\$394	\$762	\$1,479	\$2,324
Non-interest income (loss):				
Net impairment of available-for-sale securities recognized in earnings	108	37	322	(95)
Derivative losses	(2,950)	(133)	(1,221)	(2,745)
Losses on trading securities	(103)	(202)	(329)	(243)
Non-agency mortgage-related securities settlements	—	1,187	—	6,084
Other non-interest income	1,028	407	2,949	1,920
Total non-interest income (loss)	(1,917)	1,296	1,721	4,921
Non-interest expense:				
Administrative expense	(76)	(104)	(239)	(339)
Other non-interest expense (income)	—	—	(2)	(6)
Total non-interest expense	(76)	(104)	(241)	(345)
Segment adjustments	205	168	602	468
Segment Earnings before income tax (expense) benefit	(1,394)	2,122	3,561	7,368
Income tax (expense) benefit	431	(682)	(1,137)	(2,308)
Segment Earnings, net of taxes	(963)	1,440	2,424	5,060
Total other comprehensive income (loss), net of taxes	(45)	819	22	1,893
Comprehensive income (loss)	\$(1,008)	\$2,259	\$2,446	\$6,953
Key metrics:				
Portfolio balances:				
Ending investments asset balances:				
Mortgage-related investments ⁽¹⁾ (based on UPB)			\$271,894	\$306,043
Non-mortgage-related investments ⁽²⁾ (based on carrying value)			71,863	61,553
Total investments			\$343,757	\$367,596
Average balances of interest-earning assets (based on amortized cost):				
Mortgage-related investments ⁽¹⁾	\$282,365	\$316,248	\$297,609	\$322,075
Non-mortgage-related investments ⁽²⁾	64,223	61,450	64,821	63,162
Total average balances of interest-earning assets	\$346,588	\$377,698	\$362,430	\$385,237
Return:				
Net interest yield — Segment Earnings basis (annualized)	0.46	% 0.81	% 0.54	% 0.80

(1) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which are consolidated under GAAP on our consolidated balance sheets, and single-family unsecuritized performing loans.

(2) Includes interest-earning cash and cash equivalents, non-mortgage-related securities, federal funds sold and securities purchased under agreements to resell, and advances to lenders.

Comprehensive Income (Loss)

The primary drivers of comprehensive income for the Investments segment generally consist of: (a) net interest income generated on our investments; (b) derivative- and investments-related fair value gains and losses; and (c) other non-interest income, which includes gains (losses) on sales of available-for-sale securities.

Comprehensive income declined during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to higher derivative losses recorded during 2015 compared to 2014. Also, income from settlements of non-agency mortgage-related securities litigation was recognized during the three months ended September 30, 2014, while no such income was recognized for the same period during 2015.

Comprehensive income declined during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to income from settlements of non-agency mortgage-related securities litigation recognized during 2014, while no such income was recognized during 2015. This decrease was partially offset by lower derivative losses recorded during 2015 compared to 2014.

Business Activities

We held \$164.0 billion and \$174.6 billion of agency securities and \$30.0 billion and \$44.2 billion of non-agency mortgage-related securities at September 30, 2015 and December 31, 2014, respectively.

Table of Contents

The UPB of our mortgage investments portfolio, which includes mortgage loans, declined \$29.7 billion in the first nine months of 2015. This decline was primarily due to liquidations of the portfolio and sales of our less liquid assets, consistent with our efforts to reduce the amount of less liquid assets that we hold.

We sold \$10.3 billion of non-agency mortgage-related securities during the nine months ended September 30, 2015, compared to \$11.2 billion for the same period of 2014. In addition, we securitized \$7.4 billion of single-family re-performing or modified loans during the nine months ended September 30, 2015, compared to \$7.0 billion for the same period of 2014.

We continue to be able to access the capital markets and issued \$307.8 billion of discount notes, \$91.7 billion of callable debt and \$30.3 billion of non-callable debt during the nine months ended September 30, 2015.

Certain of our financial assets and liabilities are measured at amortized cost, while others, including derivatives, are measured at fair value. As a result, changes in interest rates create volatility in our Segment Earnings, as the volatility created by these changes is recognized solely by the Investments segment. The volatility in our Segment Earnings may not be indicative of the underlying economics of our business.

We continue to maintain low sensitivity to interest rates on an economic basis as measured by our models, through the use of derivatives.

Duration averaged 0.2 months for the nine months ended September 30, 2015.

Portfolio Market Value Sensitivity to an adverse 50 basis point parallel movement in interest rates averaged \$97 million for the nine months ended September 30, 2015.

Key Drivers of Segment Earnings and Other Comprehensive Income

Net interest income and yields for the three and nine months ended September 30, 2015 declined compared to the three and nine months ended September 30, 2014, primarily from the continued reduction in the balance of higher-yielding mortgage-related assets, coupled with expense recognition related to the accelerated amortization of our basis adjustments for our mortgage-related assets due to increased prepayments.

Net impairment of available-for-sale securities recognized in earnings for the three and nine months ended September 30, 2015 declined compared to the three and nine months ended September 30, 2014, primarily due to a decrease in the population of securities we intend to sell in the 2015 periods compared to the 2014 periods.

Derivative losses for the three months ended September 30, 2015 increased compared to the three months ended September 30, 2014 primarily due to larger declines in longer-term interest rates. Derivative losses for the nine months ended September 30, 2015 decreased compared to the nine months ended September 30, 2014, primarily due to lower declines in longer-term interest rates in the 2015 periods compared to the 2014 periods.

Non-interest income for the three and nine months ended September 30, 2015 did not include any income from settlements of non-agency mortgage-related securities litigation, while we recognized \$1.2 billion and \$6.1 billion of such income during the three and nine months ended September 30, 2014, respectively.

Other non-interest income for the three and nine months ended September 30, 2015 increased compared to the three and nine months ended September 30, 2014 primarily due to increased amortization income related to deferred gains associated with PCs issued by our consolidated trusts that we previously held and subsequently transferred to third parties. The increase in amortization income was driven by higher liquidations of these securities resulting from higher prepayments on the underlying loans.

Other comprehensive income (loss) for the three months ended September 30, 2015 decreased compared to the three months ended September 30, 2014 primarily due to fair value losses on our non-agency mortgage-related securities due to spread widening during the third quarter of 2015, compared to spread tightening during the third quarter of 2014. This decline was partially offset by higher fair value gains on our agency mortgage-related securities due to declines in interest rates. Other comprehensive income for the nine months ended September 30, 2015 decreased compared to the nine months ended September 30, 2014 primarily due to lower fair value gains on our non-agency mortgage-related securities due to less spread tightening in 2015 compared to 2014.

Table of Contents

Multifamily

The table below presents the Segment Earnings of our Multifamily segment.

Table 18 — Segment Earnings and Key Metrics — Multifamily

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
	(dollars in millions)				
Segment Earnings (loss):					
Net interest income	\$ 148	\$ 240	\$ 671	\$ 705	
Benefit for credit losses	—	10	20	52	
Non-interest income (loss):					
Management and guarantee fee income	87	65	239	186	
Gains on mortgage loans	122	116	216	526	
Derivative gains (losses)	(502	) 310	7	507	
Other non-interest income (loss)	92	(3	) 84	203	
Total non-interest income (loss)	(201	) 488	546	1,422	
Non-interest expense:					
Administrative expense	(80	) (66	) (240	) (199)
REO operations income	—	6	—	8	
Other non-interest expense	(13	) (3	) (36	) (16)
Total non-interest expense	(93	) (63	) (276	) (207)
Segment Earnings (loss) before income tax expense	(146	) 675	961	1,972	
Income tax (expense) benefit	43	(230	) (307	) (633)
Segment Earnings (loss), net of taxes	(103	) 445	654	1,339	
Total other comprehensive income (loss), net of taxes	19	(113	) (108	) (180)
Total comprehensive income (loss)	\$(84	) \$332	\$546	\$1,159	
Key metrics:					
New Business Activity:					
Multifamily new business activity	\$ 10,914	\$ 6,947	\$ 34,053	\$ 14,062	
Multifamily mortgage loan purchase commitments outstanding, at period end	\$ 16,971	\$ 7,913	\$ 16,971	\$ 7,913	
Multifamily units financed from new business activity	167,493	100,555	479,659	213,909	
Securitization Activity: ⁽¹⁾					
Multifamily securitization transactions — guaranteed portion	\$ 6,661	\$ 4,048	\$ 19,573	\$ 11,226	
Multifamily securitization transactions — unguaranteed portion ⁽²⁾	\$ 875	\$ 647	\$ 3,131	\$ 1,870	
Average subordination, at issuance	11.6	% 13.8	% 13.8	% 14.3	%
K Certificate guarantees:					
Average management and guarantee fee rate, in bps (annualized) ⁽³⁾	24.8	21.5	23.8	20.8	
Average K Certificate guaranteed UPB	\$ 90,749	\$ 67,885	\$ 84,398	\$ 64,938	
Credit:					
Multifamily mortgage portfolio delinquency rate, at period end:					
K Certificates	0.02	% 0.02	% 0.02	% 0.02	%
All other	—	% 0.04	% —	% 0.04	%
Total	0.01	% 0.03	% 0.01	% 0.03	%
REO inventory, at period end (number of properties)	1	—	1	—	

- (1) Consists primarily of K Certificate transactions.
- (2) Represents subordinated securities (i.e., CMBS), which are not issued or guaranteed by us.
- (3) Represents Multifamily Segment Earnings — management and guarantee fee income associated with K Certificates, divided by the sum of the average UPB of the outstanding K Certificates.

Comprehensive Income (Loss)

The primary drivers of comprehensive income for the Multifamily segment generally consist of: (a) net interest income; (b) management and guarantee fee income; and (c) gains (losses) on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)). We use derivatives in the Multifamily segment to economically offset interest rate-related fair value changes of certain assets. The fair value changes of these economically hedged assets are included in gains (losses) on mortgage loans, other non-interest income (loss) and total other comprehensive income (loss). These changes and the interest rate-related derivative fair value changes that are included in derivative gains (losses) offset each other and, as a result, there is no net impact on total comprehensive income for the Multifamily segment from interest rate-related derivatives.

Table of Contents

Comprehensive income for the Multifamily segment declined during the three months ended September 30, 2015, compared to the same period during 2014, primarily due to: (a) lower gains on the sale of mortgage loans; and (b) lower fair value gains on mortgage loans and securities. Comprehensive income for the Multifamily segment declined during the nine months ended September 30, 2015, compared to the same period during 2014, primarily due to the two drivers described above and no gains on sales of available-for-sale securities during 2015.

Multifamily New Business Activity

We continue to provide liquidity to the multifamily market and support affordable rental housing by acquiring and securitizing multifamily mortgage loans. Our total new business activity increased during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to the rapid and significant growth observed in the overall multifamily market since late 2014.

The 2015 Conservatorship Scorecard sets a goal for us to maintain new multifamily business activity (excluding certain targeted mortgage loan types) at or below \$30.0 billion in UPB. In May 2015, FHFA expanded the parameters for exclusion of mortgage loan amounts from its scorecard limit in order to facilitate continued liquidity for affordable rental housing in a growing multifamily market.

We had \$34.1 billion in new business activity during the nine months ended September 30, 2015. Approximately 70% of this amount was counted towards the 2015 Conservatorship Scorecard goal, while the remaining 30% was excluded.

Multifamily Mortgage Loan Purchase Commitments Outstanding

Multifamily mortgage loan purchase commitments outstanding increased as of September 30, 2015, compared to September 30, 2014, reflecting the overall growth in the multifamily market.

Credit Risk Transfer Activity

We sold \$6.0 billion and \$21.2 billion in UPB of multifamily mortgage loans during the three and nine months ended September 30, 2015, respectively, primarily through K Certificate transactions, compared to \$4.5 billion and \$12.9 billion during the three and nine months ended September 30, 2014, respectively.

The percentage of our total multifamily mortgage portfolio protected by subordination was 59% and 56% at September 30, 2015 and December 31, 2014, respectively. This subordination is primarily provided by the unguaranteed securities sold to third parties in K Certificate transactions, which absorb first losses.

Approximately 90% of the mortgage loans we purchased during the nine months ended September 30, 2015 were designated for securitization, and we continue to pursue strategies to transfer credit risk for mortgage loans that are not designated for securitization.

Multifamily Portfolio

The UPB of the total multifamily portfolio increased to \$182.1 billion as of September 30, 2015 from \$169.3 billion as of December 31, 2014, primarily due to an increase in our guarantee portfolio and higher levels of new business activity that outpaced liquidations and the sale of mortgage loans in securitization transactions.

Credit Quality and Mortgage Loan Performance

As a result of solid market fundamentals and strong underwriting policies, we believe that the credit quality of the multifamily mortgage portfolio remains strong.

Multifamily credit losses as a percentage of the combined average balance of our multifamily mortgage loan and guarantee portfolios were 0.8 basis points during the nine months ended September 30, 2015, an increase compared to (0.7) basis points during the nine months ended September 30, 2014.

Our low delinquency rates continue to reflect strong industry fundamentals.

Key Drivers of Segment Earnings and Other Comprehensive Income (Loss)

Segment Earnings net interest income declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014. This decline was primarily attributable to a segment allocation of debt extinguishment costs related to the transfer of \$1.2 billion of seasoned mortgage loans to a consolidated K Certificate trust that did not have any subordination.

Segment Earnings total non-interest income declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to: (a) lower gains on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) and no gains on sales of available-for-sale

securities; partially offset by (b) higher management and guarantee fee income.

Segment Earnings management and guarantee fee income increased during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to the higher average balance of the multifamily guarantee portfolio, driven by the ongoing issuances of K Certificates.

Table of Contents

Segment Earnings management and guarantee fee income will likely increase in future periods as we continue to issue K Certificates.

Our guarantees of K Certificates generally have lower fees than our other multifamily guarantee activities as a result of our limited credit risk exposure due to the use of subordination.

Segment Earnings gains on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to fair value losses on multifamily mortgage loans held-for-sale as a result of significant market spread volatility on a higher balance during the 2015 periods.

Segment Earnings other non-interest income declined during the nine months ended September 30, 2015, compared to the same period of 2014, primarily due to gains recognized on the sale of available-for-sale securities during the 2014 period. We did not have any such sales in the 2015 period.

Total other comprehensive income (loss) (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) improved during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to lower fair value losses on available-for-sale securities during the 2015 periods.

CONSOLIDATED BALANCE SHEETS ANALYSIS

You should read this discussion of our consolidated balance sheets in conjunction with our condensed consolidated financial statements, including the accompanying notes.

Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell

The short-term assets on our condensed consolidated balance sheets, which include those related to our consolidated VIEs, consisted primarily of restricted cash, cash equivalents and securities purchased under agreements to resell at September 30, 2015. Short-term assets related to our consolidated VIEs increased by \$4.9 billion from December 31, 2014 to September 30, 2015. Our consolidated VIEs include the trusts that issue our single-family PCs. The short-term assets held by these trusts primarily relate to payments of principal and interest received on the loans underlying the PCs that are held pending distribution to the investors in those PCs.

Excluding amounts related to our consolidated VIEs, we held \$5.0 billion and \$10.9 billion of cash and cash equivalents (including non-interest bearing deposits of \$5.0 billion and \$6.5 billion at the Federal Reserve Bank of New York), no federal funds sold, and \$26.9 billion and \$38.4 billion of securities purchased under agreements to resell at September 30, 2015 and December 31, 2014, respectively. The decrease in these liquid assets was due to a decline in forecasted short-term cash needs as compared to December 31, 2014.

Excluding amounts related to our consolidated VIEs, we held on average \$6.5 billion and \$8.6 billion of cash and cash equivalents and \$34.5 billion and \$31.2 billion of federal funds sold and securities purchased under agreements to resell during the three and nine months ended September 30, 2015, respectively. In recent years, our use of federal funds sold transactions has been minimal.

Investments in Securities

The disclosures in this section do not include our holdings of single-family PCs and certain Other Guarantee Transactions issued by consolidated trusts as these holdings are eliminated in consolidation.

The table below provides the fair values of our investments in securities on our consolidated balance sheets.

Table 19 — Investments in Securities on Our Consolidated Balance Sheets

	September 30, 2015	December 31, 2014
	(in millions)	
Investments in securities:		
Available-for-sale securities		
Mortgage-related securities		
Agency securities	\$43,586	\$50,611
Non-agency securities	37,987	55,939
Total available-for-sale securities	81,573	106,550
Trading securities		
Mortgage-related securities		

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Agency securities	23,501	23,584
Non-agency securities	147	171
Total mortgage-related securities	23,648	23,755
Non-mortgage-related securities	12,158	6,682
Total trading securities	35,806	30,437
Total investments in securities	\$117,379	\$136,987

31

Freddie Mac Form 10-Q

Table of Contents

Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities, consisting of U.S. Treasury securities, provide an additional source of liquidity. Our investments in non-mortgage-related securities increased at September 30, 2015, compared to December 31, 2014, primarily due to a change in the mix of our liquidity and contingency operating portfolio.

Mortgage-Related Securities

Our investments in mortgage-related securities consist of securities issued by Fannie Mae, Ginnie Mae, and other financial institutions, as well as certain of our own mortgage-related securities. The table below provides information regarding our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets, based on UPB.

Table 20 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2015			December 31, 2014		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
(in millions)						
Freddie Mac mortgage-related securities:						
Single-family	\$34,354	\$6,914	\$41,268	\$41,340	\$6,552	\$47,892
Multifamily	1,986	3,073	5,059	1,897	1,429	3,326
Total Freddie Mac mortgage-related securities	36,340	9,987	46,327	43,237	7,981	51,218
Non-Freddie Mac mortgage-related securities:						
Agency securities:						
Fannie Mae:						
Single-family	6,320	7,314	13,634	6,852	9,303	16,155
Ginnie Mae:						
Single-family	98	331	429	119	67	186
Multifamily	12	—	12	12	—	12
Total Non-Freddie Mac agency securities	6,430	7,645	14,075	6,983	9,370	16,353
Non-agency mortgage-related securities:						
Single-family: ⁽¹⁾						
Subprime	10	18,529	18,539	11	27,675	27,686
Option ARM	—	5,604	5,604	—	8,287	8,287
Alt-A and other	789	3,458	4,247	955	5,035	5,990
CMBS ⁽²⁾	5,338	8,794	14,132	9,326	11,886	21,212
Obligations of states and political subdivisions	1,438	21	1,459	2,157	12	2,169
Manufactured housing	482	165	647	521	183	704
Total non-agency mortgage-related securities	8,057	36,571	44,628	12,970	53,078	66,048
Total UPB of mortgage-related securities	\$50,827	\$54,203	105,030	\$63,190	\$70,429	133,619
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(4,225)			(8,187)
Net unrealized gains (losses) on mortgage-related securities, pre-tax			4,416			4,873
Total carrying value of mortgage-related securities			\$105,221			\$130,305

(1) Approximately 4% and 3% of these securities held at September 30, 2015 and December 31, 2014, respectively, were investment grade as of those dates, based on the UPB and the lowest rating available.

(2) Approximately 88% and 92% of these securities held at September 30, 2015 and December 31, 2014, respectively, were investment grade as of those dates, based on the UPB and the lowest rating available.

The table below provides the UPB and fair value of our investments in agency and non-agency mortgage-related securities on our consolidated balance sheets.

Table of Contents

Table 21 — Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2015		December 31, 2014	
	UPB (in millions)	Fair Value	UPB	Fair Value
Agency pass-through securities	\$9,515	\$10,260	\$11,289	\$12,196
Other agency securities:				
Interest-only securities	—	2,487	—	2,093
Principal-only securities	2,155	1,843	2,427	2,086
Inverse floating-rate securities ⁽¹⁾	858	1,241	1,156	1,619
REMICs and Other Structured Securities	47,874	51,256	52,699	56,201
Total agency securities	60,402	67,087	67,571	74,195
Non-agency securities	44,628	38,134	66,048	56,110
Total mortgage-related securities	\$105,030	\$105,221	\$133,619	\$130,305

Represents securities where the holder receives interest cash flows that change inversely with the reference rate (1)(i.e., higher cash flows when reference rates are low and lower cash flows when reference rates are high).

Additionally, these securities receive a portion of principal cash flows associated with the underlying collateral. The reduction in non-agency mortgage-related securities from December 31, 2014 to September 30, 2015 was due to liquidations and sales, consistent with our efforts to reduce the amount of less liquid assets in our mortgage-related investments portfolio, as described in “EXECUTIVE SUMMARY — Limits on Our Mortgage-Related Investments Portfolio.”

The reduction in agency mortgage-related securities from December 31, 2014 to September 30, 2015 was mainly due to liquidations.

Higher-Risk Components of Our Investments in Mortgage-Related Securities

We have exposure to subprime, option ARM, interest only, and Alt-A and other loans as part of our investments in mortgage-related securities as follows:

• **Single-family non-agency mortgage-related securities:** We hold non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans.

• **Single-family Freddie Mac mortgage-related securities:** We hold certain Other Guarantee Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of these Other Guarantee Transactions. For more information on single-family loans with certain higher-risk characteristics underlying our issued securities, see “RISK MANAGEMENT — Credit Risk — Single-Family Mortgage Credit Risk — Monitoring Mortgage Loan Performance.”

Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. Since the first quarter of 2008, we have not purchased any non-agency mortgage-related securities backed by subprime, option ARM, or Alt-A loans. The table below presents information about our holdings of available-for-sale non-agency mortgage-related securities backed by subprime, option ARM and Alt-A loans.

Table of Contents

Table 22 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans and Certain Related Credit Statistics

	As of					
	9/30/2015	6/30/2015	3/31/2015	12/31/2014	9/30/2014	
	(dollars in millions)					
UPB: ⁽¹⁾						
Subprime	\$18,539	\$20,987	\$23,790	\$27,682	\$30,706	
Option ARM	5,604	6,938	7,704	8,287	8,493	
Alt-A	3,066	3,622	4,318	4,549	4,995	
Gross unrealized losses, pre-tax:						
Subprime	\$394	\$388	\$497	\$610	\$880	
Option ARM	74	85	164	183	223	
Alt-A	22	22	30	32	30	
Present value of expected future credit losses: ⁽²⁾⁽³⁾						
Subprime	\$2,717	\$3,196	\$2,894	\$4,262	\$4,568	
Option ARM	731	885	745	987	1,161	
Alt-A	219	262	290	457	546	
Collateral delinquency rate: ⁽⁴⁾						
Subprime	28	% 29	% 31	% 32	% 32	%
Option ARM	23	24	26	27	27	
Alt-A	18	19	20	20	20	
Average credit enhancement: ⁽⁵⁾						
Subprime	7	% 8	% 9	% 9	% 9	%
Option ARM	(1) (1) —	—	—	
Alt-A	1	1	2	2	2	
Cumulative collateral loss: ⁽⁶⁾						
Subprime	33	% 33	% 33	% 32	% 32	%
Option ARM	26	25	25	25	25	
Alt-A	15	16	15	15	15	

Not affected by income from settlements of non-agency mortgage-related securities litigation. For more (1) information, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers” in our 2014 Annual Report.

Represents our estimate of the present value of future contractual cash flows that we do not expect to collect, discounted at the effective interest rate determined based on the security’s contractual cash flows and the initial (2) acquisition costs. This discount rate is only utilized to analyze the cumulative credit deterioration for securities since acquisition and may be lower than the discount rate used to measure ongoing other-than-temporary impairment to be recognized in earnings for securities that have experienced a significant improvement in expected cash flows since the last recognition of other-than-temporary impairment recognized in earnings.

We regularly evaluate the underlying estimates and models we use when determining the present value of expected (3) future credit losses and update our assumptions to reflect our historical experience and current view of economic factors. As a result, data in different periods may not be comparable.

Determined based on the number of loans that are two monthly payments or more past due that underlie the (4) securities using information obtained from a third-party data provider.

(5) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on the total UPB of securities subordinate to the securities we own, divided by the total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated securities;

excludes credit enhancement provided by bond insurance. Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

(6) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are significantly less than the losses on the underlying collateral as presented in this table, as non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements.

Our estimate of the present value of expected future credit losses on our available-for-sale non-agency mortgage-related securities decreased to \$3.8 billion at September 30, 2015 from \$4.4 billion at June 30, 2015. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses on our available-for-sale securities was primarily driven by sales and a decrease in interest rates.

The investments we hold in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in the aggregate. In most cases, we continued to experience the erosion of structural credit enhancements on securities backed by subprime, option ARM, and Alt-A loans due to poor

Table of Contents

performance of the underlying collateral. There is also substantial uncertainty surrounding certain bond insurers' ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments.

We incurred actual principal cash shortfalls of \$47 million and \$215 million and received principal repayments of \$1.0 billion and \$3.0 billion on available-for-sale non-agency mortgage-related securities backed by subprime, Option ARM, and Alt-A and other loans, during the three and nine months ended September 30, 2015, respectively. The timing of our recognition of principal cash shortfalls is based on the structure of our investments, as many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures.

We and FHFA, as Conservator, are involved in various efforts to mitigate or recover our losses as an investor with respect to certain of the non-agency mortgage-related securities we hold.

Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities

We recorded net impairment of available-for-sale securities recognized in earnings of \$54 million and \$245 million during the three and nine months ended September 30, 2015, respectively, compared to \$166 million and \$687 million during the three and nine months ended September 30, 2014, respectively. At September 30, 2015, our gross unrealized losses, pretax, on available-for-sale mortgage-related securities were \$549 million.

We review our investments in available-for-sale securities that are in an unrealized loss position to determine which securities, if any, we intend to sell, given market conditions and other information as of the balance sheet date. The UPB of non-agency mortgage-related securities which we had the intent to sell was \$8.3 billion as of September 30, 2015. For these securities, we recorded the unrealized loss as a net impairment of available-for-sale securities recognized in earnings.

We determine the population of securities we intend to sell using management judgment based on a variety of factors, including economics and our current operational plans, models and strategies and, in the case of single-family non-agency mortgage-related securities, whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. The population of securities that we intend to sell may change from period to period. During the three and nine months ended September 30, 2015, net impairment of available-for-sale securities recognized in earnings included \$38 million and \$203 million, respectively, compared to \$132 million and \$598 million during the three and nine months ended September 30, 2014, respectively. Amounts in both years relate to the inclusion of additional securities in the population of available-for-sale securities in an unrealized loss position that we intend to sell. The addition of securities to this population during these periods generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. We recorded the remaining impairments because of increases in our estimate of the present value of expected future credit losses on certain individual available-for-sale securities. Changes in our operational plans, models or strategies could change the population of securities we intend to sell and thereby have a potentially significant impact on earnings.

The credit performance of loans underlying our holdings of non-agency mortgage-related securities declined since 2007 and, although it has stabilized in recent periods, it remains weak. This decline was particularly severe for subprime, option ARM, and Alt-A and other loans. Our investments in non-agency mortgage-related securities were adversely affected by high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence. In addition, the loans which serve as collateral for the securities we hold have significantly greater concentrations in the states that have undergone the greatest economic stress during the housing crisis that began in 2006, such as California and Florida.

Our assessments concerning other-than-temporary impairment involve the use of models, require significant judgment and are subject to potentially significant change as conditions evolve. Changes in the performance of the individual securities and mortgage market conditions may also affect our impairment assessments. It is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future principal cash shortfalls.

For more information on risks associated with the use of models, see "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to

make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties” in our 2014 Annual Report.

Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheets was \$1.7 trillion at both September 30, 2015 and December 31, 2014. Most of the mortgage loans on our consolidated balance sheets are securitized (e.g., held in PC trusts). The unsecuritized mortgage loans on our consolidated balance sheets generally consist of mortgage loans held for investment purposes, mortgage loans that are awaiting securitization, or delinquent or modified mortgage loans that we removed from PC trusts.

Based on the amount of the recorded investment of single-family mortgage loans classified as held-for-investment on our consolidated balance sheets, approximately \$16.5 billion, or 1.0%, of these mortgage loans were seriously delinquent or in the

Table of Contents

process of foreclosure as of September 30, 2015, compared to \$31.8 billion, or 1.9%, as of December 31, 2014. The majority of these mortgage loans are unsecuritized and were removed by us from our PC trusts.

The UPB of unsecuritized single-family mortgage loans declined \$12.3 billion to \$99.2 billion at September 30, 2015 from \$111.5 billion at December 31, 2014, primarily due to mortgage loan prepayments, foreclosure transfers, foreclosure alternative activities, securitization of mortgage loans purchased for cash, securitization of reperforming and modified mortgage loans and, to a lesser extent, sales of seriously delinquent mortgage loans. This decline was partially offset by our removal of seriously delinquent single-family mortgage loans from PC trusts. As of September 30, 2015 and December 31, 2014, the balance of unsecuritized single-family mortgage loans included \$82.8 billion and \$82.4 billion, respectively, in UPB of mortgage loans classified as TDRs that were no longer seriously delinquent.

The UPB of unsecuritized multifamily mortgage loans was \$54.2 billion at September 30, 2015 and \$53.0 billion at December 31, 2014. This increase was primarily due to the purchase of mortgage loans for future securitization through K Certificates, partially offset by liquidations of held-for-investment mortgage loans.

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. We also maintain a reserve for guarantee losses related to single-family and multifamily mortgage loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. Our loan loss reserves were \$16.5 billion and \$21.9 billion at September 30, 2015 and December 31, 2014, respectively, including \$16.4 billion and \$21.8 billion, respectively, related to single-family mortgage loans. At September 30, 2015 and December 31, 2014, our allowance for loan losses, as a percentage of mortgage loans, held-for-investment, on our consolidated balance sheets was 0.9% and 1.3%, respectively.

The table below summarizes the principal amount of mortgage loans we purchased and the amount of guarantees we issued in the applicable periods. The activity presented in the table consists of: (a) mortgage loans in consolidated PCs issued in the period (regardless of whether the PCs are held by us or third parties); (b) single-family and multifamily mortgage loans purchased, but not securitized, in the period; and (c) mortgage loans underlying our mortgage-related financial guarantees issued in the period, which are not consolidated on our balance sheets.

Table 23 — Mortgage Loan Purchases and Other Guarantee Commitment Issuances

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2015		2014		2015		2014		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	
	(dollars in millions)								
Mortgage loan purchases and other guarantee commitment issuances:									
Single-family:									
30-year or more amortizing fixed-rate	\$68,606	66 %	\$58,545	70 %	\$205,153	67 %	\$138,794	70 %	
20-year amortizing fixed-rate	4,362	4	2,293	3	13,404	4	6,040	3	
15-year amortizing fixed-rate	16,943	16	11,161	13	46,102	15	28,054	14	
Adjustable-rate	3,606	3	4,594	6	10,098	3	11,241	6	
FHA/VA and other governmental	49	—	65	—	127	—	160	—	
Total single-family ⁽²⁾	93,566	89	76,658	92	274,884	89	184,289	93	
Multifamily:									
10-year	5,528	5	2,566	3	16,851	6	4,436	2	
7-year	2,693	3	3,004	4	10,320	3	6,741	3	

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Other	2,693	3	1,377	1	6,882	2	2,885	2
Total multifamily	10,914	11	6,947	8	34,053	11	14,062	7
Total mortgage loan purchases and other guarantee commitment issuances	\$104,480	100 %	\$83,605	100 %	\$308,937	100 %	\$198,351	100 %
Percentage of mortgage loan purchases and other guarantee commitment issuances with credit enhancements at acquisition	29 %		24 %		27 %		23 %	

Excludes the removal of seriously delinquent mortgage loans and balloon/reset mortgage loans from PC trusts.

(1) Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.

Includes \$27.2 billion and \$14.5 billion of conforming jumbo mortgage loan purchases and \$0.4 billion and \$0.2 billion of conforming jumbo mortgage loans underlying other guarantee commitment issuances during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. The UPB of

(2) conforming jumbo mortgage loans in our single-family credit guarantee portfolio as of September 30, 2015 and December 31, 2014 was \$89.6 billion and \$79.1 billion, respectively. Includes issuances of other guarantee commitments on single-family mortgage loans of \$3.3 billion and \$2.1 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Table of Contents

Our single-family purchase activity increased during the 2015 periods compared to the 2014 periods primarily due to higher refinancing volume. We attribute this increase to lower average long-term mortgage loan interest rates during the 2015 periods compared to prior periods. During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared with 46% during the nine months ended September 30, 2014.

See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio" for information about certain mortgage loans in our single-family credit guarantee portfolio that, we believe, have higher-risk characteristics.

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of purchases and terminations of derivatives, assignments of derivatives prior to their contractual maturity, and expiration of derivatives at their contractual maturity.

The net fair value of our total derivative portfolio was \$(1.1) billion at both September 30, 2015 and December 31, 2014.

REO, Net

We typically acquire properties as a result of borrower defaults (and subsequent foreclosures) on mortgage loans that we own or guarantee. These properties are recorded as REO assets on our consolidated balance sheets. The balance of our REO, net, declined to \$1.8 billion at September 30, 2015 from \$2.6 billion at December 31, 2014. We expect our REO dispositions to remain at elevated levels in the near term, relative to historic levels, as we have a large REO inventory and a significant number of seriously delinquent mortgage loans that are in the process of foreclosure.

Deferred Tax Assets, Net

At September 30, 2015 and December 31, 2014, we had a net deferred tax asset of \$17.8 billion and \$19.5 billion, respectively. We determined that a valuation allowance was not necessary at either date.

Other Assets

Other assets consist of accounts and other receivables, the guarantee asset related to non-consolidated trusts and other guarantee commitments, our investment in CSS, and other miscellaneous assets. Other assets increased to \$9.8 billion as of September 30, 2015 from \$7.7 billion as of December 31, 2014 primarily due to an increase in receivables related to: (a) our advances to lenders associated with our single-family mortgage loan purchase and securitization activity; (b) an increase in servicer receivables resulting from an increase in mortgage loans paid off by borrowers at the end of the period that had not yet been remitted to us; and (c) an increase in our current income tax receivable. During the nine months ended September 30, 2015, we contributed \$47 million of capital into CSS. For more information on other assets, see "NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS."

Total Debt, Net

Total debt, net on our consolidated balance sheets consists of debt securities of consolidated trusts held by third parties and other debt.

The table below presents the UPB of Freddie Mac-issued mortgage-related securities by the underlying mortgage product type.

Table of Contents

Table 24 — Freddie Mac Mortgage-Related Securities

	September 30, 2015			December 31, 2014		
	Issued by Consolidated Trusts (in millions)	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
PCs and Other Structured Securities:						
Single-family:						
30-year or more amortizing fixed-rate	\$ 1,141,618	\$ —	\$ 1,141,618	\$ 1,088,340	\$ —	\$ 1,088,340
20-year amortizing fixed-rate	81,444	—	81,444	78,603	—	78,603
15-year amortizing fixed-rate	281,890	—	281,890	278,282	—	278,282
Adjustable-rate ⁽¹⁾	67,829	—	67,829	69,683	—	69,683
Interest-only	20,670	—	20,670	23,941	—	23,941
FHA/VA and other governmental	2,860	—	2,860	3,154	—	3,154
Total single-family	1,596,311	—	1,596,311	1,542,003	—	1,542,003
Multifamily	102	4,820	4,922	84	4,846	4,930
Total single-family and multifamily	1,596,413	4,820	1,601,233	1,542,087	4,846	1,546,933
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family ⁽²⁾	6,097	2,537	8,634	7,030	2,760	9,790
Multifamily	1,635	91,379	93,014	440	75,730	76,170
Total Non-HFA bonds	7,732	93,916	101,648	7,470	78,490	85,960
HFA Initiative Bonds:						
Single-family	—	2,715	2,715	—	3,040	3,040
Multifamily	—	711	711	—	720	720
Total HFA Initiative Bonds	—	3,426	3,426	—	3,760	3,760
Total Other Guarantee Transactions	7,732	97,342	105,074	7,470	82,250	89,720
REMICs and Other Structured Securities backed by Ginnie Mae certificates						
Total Freddie Mac Mortgage-Related Securities	\$ 1,604,145	\$ 102,527	\$ 1,706,672	\$ 1,549,557	\$ 87,529	\$ 1,637,086
Less: Repurchased Freddie Mac Mortgage-Related Securities	(107,253)			(109,232)		
Total UPB of debt securities of consolidated trusts held by third parties	\$ 1,496,892			\$ 1,440,325		

(1) Includes \$0.7 billion and \$0.8 billion in UPB of option ARM loans as of September 30, 2015 and December 31, 2014, respectively.

Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and (2) also include \$4.4 billion and \$4.9 billion in UPB of securities backed by option ARM loans as of September 30, 2015 and December 31, 2014, respectively.

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust debt securities, based on UPB, was approximately 94% as of both September 30, 2015 and December 31, 2014. The UPB of multifamily Other Guarantee Transactions, excluding HFA initiative-related bonds, increased to \$93.0 billion as of September 30, 2015 from \$76.2 billion as of December 31, 2014, due to K Certificate issuances.

The table below shows issuances and extinguishments of the debt securities of our consolidated trusts during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, as well as the debt securities of consolidated trusts held by third parties, based on UPB.

Table of Contents

Table 25 — Issuances and Extinguishments of Debt Securities of Consolidated Trusts

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in millions)			
Beginning balance of debt securities of consolidated trusts held by third parties	\$ 1,473,961	\$ 1,416,905	\$ 1,440,325	\$ 1,399,456
Issuances of debt securities of new consolidated trusts	98,676	77,517	278,743	187,026
Debt securities of new consolidated trusts retained by us at issuance	(27,390)	(21,652)	(71,981)	(32,870)
Net issuances to third parties of debt securities of new consolidated trusts	71,286	55,865	206,762	154,156
Reissuances of debt securities of consolidated trusts previously held by us	37,199	29,817	100,079	69,296
Total issuances to third parties of debt securities of consolidated trusts	108,485	85,682	306,841	223,452
Extinguishments, net	(85,554)	(72,473)	(250,274)	(192,794)
Ending balance of debt securities of consolidated trusts held by third parties	\$ 1,496,892	\$ 1,430,114	\$ 1,496,892	\$ 1,430,114

Total issuances to third parties of debt securities of consolidated trusts and extinguishments, net increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in refinance activity resulting from lower average long-term mortgage loan interest rates during the first nine months of 2015 compared to prior periods.

Other Liabilities

Other liabilities consist of servicer liabilities, the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities increased to \$5.7 billion as of September 30, 2015 from \$5.1 billion as of December 31, 2014 primarily due to the purchase of non-mortgage-related securities classified as trading that had not settled by September 30, 2015, and an accrual of expenses for the Housing Trust Fund and Capital Magnet Fund in 2015. See “NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS” for additional information.

Total Equity

The table below presents the changes in total equity and certain capital-related disclosures.

Table 26 — Changes in Total Equity

	Three Months Ended				Nine Months Ended
	9/30/2015	6/30/2015	3/31/2015	12/31/2014	
	9/30/2014	9/30/2015	(in millions)		
Beginning balance	\$ 5,713	\$ 2,546	\$ 2,651	\$ 5,186	\$ 4,290
Net income	(475)	4,169	524	227	2,081
Other comprehensive income (loss), net of taxes:					
Changes in unrealized gains (losses) related to available-for-sale securities	(61)	(314)	157	22	656
Changes in unrealized gains (losses) related to cash flow hedge relationships	35	38	59	46	50
Changes in defined benefit plans	—	20	6	(44)	(1)
Comprehensive income	(501)	3,913	746	251	2,786

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Capital draw funded by Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(3,913)	(746)	(851)	(2,786)	(1,890)	(5,510)
Total equity/Net worth	\$1,299	\$5,713	\$2,546	\$2,651	\$5,186	\$1,299
Aggregate draws under the Purchase Agreement (as of period end) ⁽¹⁾	\$71,336	\$71,336	\$71,336	\$71,336	\$71,336	\$71,336
Aggregate senior preferred stock dividends paid to Treasury in cash (as of period end)	\$96,465	\$92,552	\$91,806	\$90,955	\$88,169	\$96,465

Does not include the initial \$1.0 billion liquidation preference of senior preferred stock that we issued to Treasury (1) in September 2008 as an initial commitment fee and for which no cash was received. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference.

At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2015. We paid cash dividends to Treasury of \$5.5 billion during the nine months ended September 30, 2015. Because our Net Worth Amount at September 30, 2015 was below the 2015 Capital Reserve Amount of \$1.8 billion, we will not have a dividend obligation under the Purchase Agreement in December 2015.

Our available-for-sale securities net unrealized gains (losses) recorded in AOCI was \$2.3 billion and \$2.5 billion at September 30, 2015 and December 31, 2014, respectively. This decline in AOCI was primarily due to fair value losses resulting

Table of Contents

from the impact of decreasing interest rates on our available-for-sale securities and spread widening on our non-agency mortgage-related securities.

RISK MANAGEMENT

Risk Management

Overview

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate and other market risks (discussed in “Quantitative and Qualitative Disclosures About Market Risk”); and (c) operational risk. We discuss our liquidity risk and our management of that risk in “Liquidity and Capital Resources.”

Risk management is a critical aspect of our business. Our ability to identify, measure, mitigate, and report risk is critical to our ability to maintain risk at an appropriate level.

See “RISK FACTORS” in our 2014 Annual Report for additional information regarding certain risks material to our business.

Risk Management Framework

We manage risk using a three-lines-of-defense risk management framework. The first line of defense, defined generally as our business units, is responsible for identifying, assessing, measuring, mitigating and reporting risks. Each business unit is responsible for managing its risks in conformance with the risk guidelines, risk policies and risk limits approved by the Board, the Risk Committee of our Board and executive management. The second line of defense includes our Enterprise Risk Management and Compliance divisions and is accountable for: (a) reporting risk to senior management and, as needed, the Board; (b) setting the overall risk appetite and framework for monitoring risk; and (c) providing oversight of the first line. The second line of defense provides company-wide leadership and oversight to help ensure effective and consistent understanding and management of risks by our business units. The third line of defense, our Internal Audit division, provides independent assurance related to the design and effectiveness of the company’s risk management, internal control and governance processes through its audit, assurance, and advisory work. The Internal Audit division reports independently to the Audit Committee of our Board. For more information about the Board’s role in oversight of risk management, see “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Leadership Structure and Role in Risk Oversight” in our 2014 Annual Report.

The company has a governance structure that includes enterprise-wide oversight provided by the Board, CERO and CCO, as well as our Enterprise Risk Management Committee, which is chaired by the CERO. The Enterprise Risk Management Committee is responsible for: (a) maintaining a framework for managing market, operational, counterparty and credit risk; (b) overseeing enterprise risk policies; and (c) monitoring risk through risk reporting. We use an internal economic capital framework as a component in our risk management process, which includes a risk-based measurement of capital, adjusted for relevant market, credit, counterparty, and operational risks. We assign economic capital internally to asset classes based on their respective risks. Economic capital is an input when we make economic decisions, establish risk limits and measure profitability.

Risk Profile

The following sections describe our current risk environment and provide quantitative and/or qualitative information concerning specific risks.

Credit Risk

We are subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage loan we own or guarantee. We are also exposed to mortgage credit risk related to certain investments in non-Freddie Mac mortgage-related securities. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations to us.

Single-Family Mortgage Credit Risk

We are exposed to mortgage credit risk principally in our single-family credit guarantee portfolio because we either hold the mortgage assets or have guaranteed mortgage loans in connection with the issuance of a Freddie Mac mortgage-related security or other guarantee commitment. All mortgage loans that we purchase or guarantee have an

inherent risk of default.

Conditions in the single-family mortgage market improved in most geographic areas during the last several years. The balance of seriously delinquent single-family mortgage loans in our single-family credit guarantee portfolio continued to decline during the nine months ended September 30, 2015, but remains at elevated levels compared to our historical experience.

We seek to issue our financial guarantees associated with single-family mortgage loans with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term, provide income that, in aggregate, exceeds our

Table of Contents

anticipated credit-related and administrative expenses. We actively manage our exposure to single-family mortgage credit risk. We discuss our principal strategies for managing single-family mortgage credit risk below.

Maintaining Policies and Procedures for our New Business Activity

We use a process of delegated underwriting for the single-family mortgage loans we purchase or securitize. In this process, our contracts with sellers describe mortgage loan eligibility and underwriting standards, and the sellers represent and warrant to us that the mortgage loans sold to us meet these standards. Through our delegated underwriting process, mortgage loans and the borrowers' ability to repay the loans are evaluated using a number of critical risk characteristics, including but not limited to, the credit profile of the borrower, the features of the mortgage loan, and the LTV ratio.

We do not have our own mortgage loan servicing operation. Instead, our servicers perform the primary servicing function on our mortgage loans on our behalf. We have contractual arrangements with our servicers under which they represent and warrant that they will service our mortgage loans in accordance with our standards. We monitor our sellers and servicers' compliance with our standards and periodically review their operational processes.

If we discover that representations and warranties were breached in either the underwriting or the servicing of a mortgage loan (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses on the mortgage loans. These contractual remedies may include the ability to require the seller or the servicer to repurchase the mortgage loan at its current UPB.

Monitoring the Characteristics of the Mortgage Loans that We Purchase or Guarantee

We monitor the characteristics of mortgage loans we purchase or guarantee, including original LTV ratios, credit scores, mortgage loan purpose and property and occupancy type. Our single-family credit guarantee portfolio consists predominantly of first-lien mortgage loans secured by the borrower's primary residence. Mortgage loans on properties occupied by the borrower as a primary residence tend to have a lower credit risk than mortgage loans on investment properties or second homes.

Risk Profile

We believe the credit quality of the single-family mortgage loans in our New single-family book reflects sound underwriting standards. We purchased or issued other guarantee commitments for approximately 1,235,000 and 884,000 single-family mortgage loans totaling \$274.9 billion and \$184.3 billion in UPB during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. Approximately 96% of the single-family mortgage loans we purchased or guaranteed during the nine months ended September 30, 2015 were fixed-rate amortizing mortgage loans, based on UPB, and the remainder were ARMs.

During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared with 46% during the nine months ended September 30, 2014. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we purchased or guaranteed more than 727,000 and 438,000 refinance mortgage loans, totaling \$159.5 billion and \$85.4 billion in UPB, respectively. We attribute the increase in our purchases of refinance mortgage loans to lower average long-term mortgage loan interest rates in the nine months ended September 30, 2015 compared to prior periods. Approximately 6% and 12% of our single-family purchase and issuance volume during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, were relief refinance mortgage loans.

Table of Contents

The table below provides characteristics of single-family mortgage loans purchased or covered by other guarantee commitments during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, based on UPB.

Table 27 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio
Percent of Purchases During the Nine Months Ended September 30,

	2015			2014			
	Relief Refi	All Other	Total	Relief Refi	All Other	Total	
Original LTV Ratio							
Range							
60% and below	1	% 18	% 19	% 2	% 14	% 16	%
Above 60% to 70%	1	14	15	1	11	12	
Above 70% to 80%	1	41	42	2	40	42	
Above 80% to 100%	2	21	23	4	23	27	
Above 100% to 125%	1	—	1	2	—	2	
Above 125%	—	—	—	1	—	1	
Total	6	% 94	% 100	% 12	% 88	% 100	%
Weighted average original LTV ratio	75	% 74	% 74	% 83	% 76	% 77	%
Credit Score							
740 and above	3	% 63	% 66	% 6	% 55	% 61	%
700 to 739	1	19	20	2	20	22	
660 to 699	1	9	10	2	10	12	
620 to 659	1	2	3	1	3	4	
Less than 620	—	1	1	1	—	1	
Total	6	% 94	% 100	% 12	% 88	% 100	%
Weighted average credit score:							
Total mortgage loans	719	752	751	712	748	744	
Percent of Purchases During the Nine Months Ended September 30,							
2015							
2014							
Mortgage Loan Purpose							
Purchase				42	% 54	%	
Cash-out refinance				21	16		
Other refinance ⁽¹⁾				37	30		
Total				100	% 100	%	
Property Type							
Detached/townhome ⁽²⁾				92	% 92	%	
Condo/Co-op				8	8		
Total				100	% 100	%	
Occupancy Type							
Primary residence				90	% 88	%	
Second/vacation home				4	4		
Investment				6	8		
Total				100	% 100	%	

(1) Other refinance mortgage loans include refinance mortgage loans with “no cash out” to the borrower and refinance mortgage loans for which the delivery data provided was not sufficient for us to determine whether the mortgage

loan was a cash-out or a no cash-out refinance transaction.

- (2) Includes manufactured housing and homes within planned unit development communities.

Due to our participation in HARP, we have purchased a significant number of mortgage loans that have LTV ratios over 100% in the last several years. HARP loans with LTV ratios over 100% represented 1% and 3% of our single-family mortgage loan purchases during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Transferring a Portion of our Mortgage Credit Risk

As guarantor, we remain responsible for the payment of principal and interest on our PCs regardless of whether the borrower performs on the underlying mortgage loan. We are also subject to mortgage credit risk for the unsecuritized mortgage loans we hold. We use credit enhancements to transfer a portion of our mortgage credit risk and mitigate some of our potential credit losses. By transferring a portion of the credit risk associated with mortgage loans in our single-family credit guarantee portfolio, we reduce our exposure to loss and, consequently, the amount of capital that would be required to operate our business.

Table of Contents

Credit enhancements at the time of purchase include: (a) primary mortgage insurance; (b) pool insurance; and (c) lender recourse and indemnifications. Approximately 22% and 25% of our single-family mortgage loan purchases during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, had credit enhancements (substantially comprised of primary mortgage insurance) at the time of our purchase of the mortgage loan.

Credit enhancements implemented after purchase include STACR debt notes and ACIS risk transfer transactions. For further information about STACR debt note and ACIS transactions, see “BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements” in our 2014 Annual Report.

Risk Profile

As of September 30, 2015 and December 31, 2014, approximately \$249.2 billion and \$227.5 billion, respectively, in UPB of mortgage loans in our single-family credit guarantee portfolio were covered by primary mortgage insurance, and we had coverage on these loans totaling \$63.7 billion and \$57.9 billion, respectively.

We recognized recoveries from primary mortgage insurance (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of \$0.4 billion and \$0.6 billion that reduced our charge-offs of single-family mortgage loans during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. We also recognized recoveries from primary mortgage insurance of \$66 million and \$162 million during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, as part of REO operations (expense) income.

We completed 14 credit risk transfer transactions during the nine months ended September 30, 2015. From 2013 through September 30, 2015, we completed credit risk transfer transactions that, upon execution of the transaction, covered \$333.9 billion in principal of the mortgage loans in our New single-family book.

The table below provides information about the UPB of STACR debt note transactions and the notional amount of ACIS transactions completed during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, and balances of STACR debt notes and ACIS related amounts as of September 30, 2015 and December 31, 2014.

Table of Contents

Table 28 — STACR Debt Note and ACIS Transactions

	Nine Months Ended September 30, 2015			2014		
	Retained by Freddie Mac (in millions)	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
Issuance information:						
First loss positions						
STACR debt notes	\$—	\$505	\$505	\$—	\$—	\$—
Non-issued (and ACIS)	865	147	1,012	536	—	536
Subtotal first loss positions	\$865	\$652	1,517	\$536	\$—	536
Mezzanine loss positions:						
STACR debt notes	\$—	\$4,067	4,067	\$—	\$3,876	3,876
Non-issued (and ACIS)	794	209	1,003	1,626	284	1,910
Subtotal mezzanine loss positions	\$794	\$4,276	5,070	\$1,626	\$4,160	5,786
Senior (remaining) loss positions	\$120,846	\$—	120,846	\$117,421	\$—	117,421
Total reference pools			\$127,433			\$123,743
Additional STACR debt notes issued related to reference pools used in transactions in prior periods			\$426			\$—
Additional ACIS transactions related to STACR debt notes issued in earlier periods			\$707			\$270

	As of September 30, 2015			As of December 31, 2014		
	Retained by Freddie Mac (in millions)	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
Remaining balance information:						
First loss positions						
STACR debt notes	\$—	\$581	\$581	\$—	\$—	\$—
Non-issued (and ACIS)	1,736	147	1,883	853	—	853
Subtotal first loss positions	\$1,736	\$728	2,464	\$853	\$—	853
Mezzanine loss positions:						
STACR debt notes	\$—	\$9,614	9,614	\$—	\$5,896	5,896
Non-issued (and ACIS)	1,224	1,564	2,788	1,680	761	2,441
Subtotal mezzanine loss positions	\$1,224	\$11,178	12,402	\$1,680	\$6,657	8,337
Senior (remaining) loss positions	\$272,597	\$—	272,597	\$183,336	\$—	183,336
Total reference pools			\$287,463			\$192,526

For mortgage loans that are covered by credit risk transfer transactions based on calculated losses, we may write down STACR debt notes or receive reimbursement of losses when the mortgage loans experience a credit event, which includes a mortgage loan becoming 180 days delinquent. For mortgage loans that are covered by risk transfer transactions based on actual losses, we may write down STACR debt notes or receive reimbursement of losses once an actual loss event (e.g., foreclosure, short sale, or REO disposition) occurs. As shown in the table above, as of

September 30, 2015, we are exposed to \$1.7 billion of first loss position losses on the remaining \$287.5 billion in UPB of the total reference pools of covered mortgage loans. As of September 30, 2015 an insignificant number of mortgage loans in our STACR debt note reference pools had experienced a credit event. As a result, we have only recognized a small amount of credit-related write downs on our STACR debt notes and have begun to make minimal claims for reimbursement of losses under our ACIS transactions.

In July 2015, we completed an offering of a whole loan security, which is a credit risk transfer transaction involving the issuance of guaranteed senior securities and unguaranteed subordinated securities, backed by single-family mortgage loans. The subordinated securities will absorb first losses on the related mortgage loans. We issued \$278 million in UPB of guaranteed securities and \$23 million in UPB of unguaranteed subordinated securities in this transaction. Also, in July 2015, we completed a seller indemnification transaction where the seller will absorb first losses on the related single-family mortgage loans.

See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for additional information about credit protection and other forms of credit enhancements covering mortgage loans in our single-family credit guarantee portfolio.

Monitoring Mortgage Loan Performance

A number of factors influence mortgage loan performance and single-family mortgage credit risk, including mortgage loan and borrower characteristics and local and regional economic conditions (such as home prices and unemployment rates).

Table of Contents

We monitor the performance of our single-family credit guarantee portfolio using a variety of metrics, including delinquency statistics and estimated current LTV ratios. Our single-family business unit reviews mortgage loan performance, in conjunction with housing market and economic conditions, to determine if our pricing and mortgage loan eligibility standards reflect the risk associated with the mortgage loans we purchase and guarantee. We also review the payment performance of our mortgage loans in order to facilitate early identification of potential problem mortgage loans, which could inform our loss mitigation strategies. We periodically make changes to our seller/servicer guidelines if warranted.

Risk Profile

An increase in estimated current LTV ratio indicates that the borrower's equity in the home has declined and we believe this increases the risk of borrower default and the magnitude of our loss exposure on the associated mortgage loan. The percentage of mortgage loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was approximately 4% and 6% at September 30, 2015 and December 31, 2014, respectively, and the serious delinquency rate for these mortgage loans was 8.09% and 9.06%, respectively.

Improvement in home prices in many areas of the U.S. during the nine months ended September 30, 2015 generally led to improved estimated current LTV ratios of the mortgage loans in our portfolio as of September 30, 2015. For the mortgage loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 80%, the borrowers had a weighted average credit score at origination of 723 and 721 at September 30, 2015 and December 31, 2014, respectively. We continue to purchase non-HARP mortgage loans with original LTV ratios greater than 80% if they are covered by credit enhancements for the UPB in excess of 80%.

The table below provides characteristics of single-family mortgage loans in our single-family credit guarantee portfolio at September 30, 2015 and December 31, 2014, based on UPB.

Table of Contents

Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio

	Portfolio Balance at		
	September 30, 2015	December 31, 2014	
Original LTV Ratio Range			
60% and below	21	% 21	%
Above 60% to 70%	14	14	
Above 70% to 80%	39	38	
Above 80% to 100%	21	21	
Above 100%	5	6	
Total	100	% 100	%
Weighted average original LTV ratio	75	% 75	%
Estimated Current LTV Ratio Range ⁽²⁾			
60% and below	41	% 39	%
Above 60% to 70%	19	18	
Above 70% to 80%	19	19	
Above 80% to 90%	11	12	
Above 90% to 100%	6	6	
Above 100% to 120%	3	4	
Above 120%	1	2	
Total	100	% 100	%
Weighted average estimated current LTV ratio:			
Relief refinance mortgage loans	72	% 75	%
All other mortgage loans	62	64	
Total mortgage loans	64	66	
Credit Score ⁽³⁾			
740 and above	59	% 58	%
700 to 739	20	20	
660 to 699	13	13	
620 to 659	5	6	
Less than 620	3	3	
Total	100	% 100	%
Weighted average credit score:			
Relief refinance mortgage loans	731	733	
All other mortgage loans	744	742	
Total mortgage loans	741	740	
Loan Purpose			
Purchase	32	% 30	%
Cash-out refinance	20	21	
Other refinance ⁽⁴⁾	48	49	
Total	100	% 100	%
Property Type			
Detached/townhome	93	% 93	%
Condo/Co-op	7	7	
Total	100	% 100	%
Occupancy Type			
Primary residence	90	% 90	%
Second/vacation home	4	4	
Investment	6	6	
Total	100	% 100	%

Other Guarantee Transactions with ending balances of approximately \$1 billion at both September 30, 2015 and (1) December 31, 2014 are excluded since these securities are backed by non-Freddie Mac issued securities for which the mortgage loan characteristics data was not available.

The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values (2) are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time.

Credit score data (at the time of mortgage loan origination) was not available for less than 0.5% of mortgage loans (3) in the single-family credit guarantee portfolio at both September 30, 2015 and December 31, 2014.

Other refinance mortgage loans include refinance mortgage loans with “no cash out” to the borrower and refinance (4) mortgage loans for which the delivery data provided was not sufficient for us to determine whether the mortgage loan was a cash-out or a no cash-out refinance transaction.

Table of Contents

The table below presents certain credit information about mortgage loans in our single-family credit guarantee portfolio by year of origination as of September 30, 2015 and for the nine months ended September 30, 2015.

Table 30 — Single-Family Credit Guarantee Portfolio Data by Year of Origination

Year of Origination	September 30, 2015								Nine Months Ended September 30, 2015
	Percent of Portfolio	Average Credit Score ⁽²⁾	Original LTV Ratio	Current LTV Ratio ⁽³⁾	Current LTV Ratio >100% ⁽³⁾	Serious Delinquency Rate	Foreclosure and Short Sale Rate ⁽⁴⁾	Percent of Credit Losses	
2015	12	% 752	74	% 74	% —	% —	% —	% —	%
2014	11	747	76	70	—	0.07	—	—	—
2013	14	755	71	59	—	0.10	0.01	—	—
2012	13	762	69	53	—	0.09	0.03	—	—
2011	5	757	69	51	—	0.26	0.08	—	—
2010	5	754	69	53	—	0.46	0.19	1	—
2009	5	750	68	56	1	0.87	0.47	2	—
Subtotal - New single-family book	65	754	72	61	—	0.20	0.15	3	—
HARP and other relief refinance mortgage loans ⁽⁵⁾	18	731	89	72	12	0.70	0.90	7	—
2005-2008 Legacy single-family book	11	700	75	79	19	6.26	8.94	80	—
Pre-2005 Legacy single-family book	6	707	74	45	1	2.64	1.46	10	—
Total	100	% 741	75	64	4	1.41		100	%

(1) Except for the foreclosure and short sale rate, the data presented is based on the mortgage loans remaining in the portfolio at September 30, 2015, which totaled \$1.7 trillion.

(2) Excludes less than 0.5% of mortgage loans in the portfolio because the credit scores at origination were not available.

(3) See endnote (2) to "Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information about current LTV ratios.

(4) Calculated for each year of origination as the number of mortgage loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, during the period from origination to September 30, 2015, divided by the number of mortgage loans originated in that year that were acquired in our single-family credit guarantee portfolio. The foreclosure and short sale rate presented for the Pre-2005 Legacy single-family book represents the rate associated with mortgage loans originated in 2000 through 2004.

(5) HARP and other relief refinance mortgage loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2015). All other refinance mortgage loans are presented in the year that the refinancing occurred.

We monitor the single-family serious delinquency rates of our portfolio, which are based on the number of mortgage loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Our single-family delinquency rates include all single-family mortgage loans that we own, that back Freddie Mac securities, and that are covered by our other guarantee commitments, except Freddie Mac financial guarantees that are

backed by either Ginnie Mae Certificates or HFA bonds due to the credit enhancements provided on them by the U.S. government.

Some of our workout and other loss mitigation activities may create fluctuations in our delinquency statistics. Single-family mortgage loans for which the borrower is subject to a modification trial period, a forbearance agreement, or a repayment plan continue to reflect the past due status of the borrower. In addition, temporary lags in the reporting of payment status and modification completion due to differing practices of our servicers may also affect our delinquency reporting.

During the nine months ended September 30, 2015, the serious delinquency rate of our single-family credit guarantee portfolio continued the trend of improvement that began in 2010, declining to 1.41% as of September 30, 2015 (which is the lowest level since October 2008) from 1.88% as of December 31, 2014. The improvement in our serious delinquency rate during the nine months ended September 30, 2015 is primarily due to lower volumes of single-family mortgage loans becoming seriously delinquent, continued loss mitigation and foreclosure activities for mortgage loans in the Legacy single-family books, and the sale of certain seriously delinquent mortgage loans. The total number of our mortgage loans that had been delinquent for more than one year declined approximately 28% during the nine months ended September 30, 2015.

Table of Contents

The table below presents the serious delinquency rate for our single-family mortgage loans at the end of the last five quarters.

Table 31 — Single-Family Serious Delinquency Rate Trend

Although the serious delinquency rate for all of our single-family mortgage loans was 1.41% at September 30, 2015, the rate for our New single-family book was 0.20% at that date, which we believe reflects both improvements in underwriting and relatively stable or improving economic conditions in recent years. The gradual reduction of our 2005-2008 Legacy single-family book has contributed to the improvement in the payment performance of our single-family credit guarantee portfolio.

Table of Contents

The table below presents serious delinquency rates and information about other problem mortgage loans in our single-family credit guarantee portfolio.

Table 32 — Single-Family Serious Delinquency Statistics

	As of September 30, 2015			As of December 31, 2014		
	Percentage	Serious Delinquency Rate		Percentage	Serious Delinquency Rate	
Credit Protection:						
Non-credit-enhanced	72	% 1.36	%	77	% 1.74	%
Credit-enhanced: ⁽¹⁾						
Primary mortgage insurance	15	% 2.26	%	14	% 3.10	%
Other	18	% 0.67	%	12	% 1.21	%
Total ⁽²⁾		1.41	%		1.88	%
	# of Seriously Delinquent Mortgage Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Mortgage Loans	Percent	Serious Delinquency Rate
State: ⁽³⁾⁽⁴⁾						
Florida	15,872	11	% 2.44	% 25,656	13	% 3.92
New York	15,149	10	3.18	19,462	10	4.06
New Jersey	13,273	9	4.32	16,960	8	5.49
Illinois	9,411	6	1.72	11,902	6	2.17
California	8,197	6	0.65	11,386	6	0.92
All others	87,049	58	1.18	112,700	57	1.52
Total	148,951	100	%	198,066	100	%
	# of Seriously Delinquent Mortgage Loans	Percent		# of Seriously Delinquent Mortgage Loans	Percent	
Aging, by locality: ⁽⁴⁾						
Judicial states: ⁽⁵⁾						
Less than or equal to 1 year	40,395	27	%	50,138	25	%
More than 1 year and less than or equal to 2 years	17,539	12		21,919	11	
More than 2 years	33,018	22		48,984	25	
Non-judicial states: ⁽⁵⁾						
Less than or equal to 1 year	38,158	26	%	49,657	25	%
More than 1 year and less than or equal to 2 years	9,806	6		12,989	7	
More than 2 years	10,035	7		14,379	7	
Combined: ⁽⁵⁾						
Less than or equal to 1 year	78,553	53	%	99,795	50	%
More than 1 year and less than or equal to 2 years	27,345	18		34,908	18	
More than 2 years	43,053	29		63,363	32	
Total	148,951	100	%	198,066	100	%

Payment Status:

One month past due	1.42	%	1.52	%
Two months past due	0.43	%	0.49	%

- (1) The credit enhanced categories are not mutually exclusive as a single mortgage loan may be covered by both primary mortgage insurance and other credit protection. See “Institutional Credit Risk” for information about our counterparties that provide credit enhancement on mortgage loans in our single-family credit guarantee portfolio.
- (2) As of September 30, 2015 and December 31, 2014, approximately 52% and 53%, respectively, of the single-family mortgage loans reported as seriously delinquent were in the process of foreclosure.
- (3) States presented have the highest number of seriously delinquent mortgage loans as of September 30, 2015. Excludes mortgage loans underlying certain single-family Other Guarantee Transactions since the geographic information is not available to us for these mortgage loans. The serious delinquency rate for all single-family Other
- (4) Guarantee Transactions was 8.94% and 10.11% as of September 30, 2015 and December 31, 2014, respectively. Single-family Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics.
- (5) The states and territories classified as having a judicial foreclosure process consist of: CT, DC, DE, FL, HI, IA, IL, IN, KS, KY, LA, ME, ND, NE, NJ, NM, NY, OH, OK, OR, PA, PR, SC, SD, VI, VT, and WI. All other states are classified as having a non-judicial foreclosure process.

Table of Contents

We also monitor mortgage loans with identified second liens at origination since the presence of a second lien can increase the risk that a borrower will default. Based on data collected by us at mortgage loan delivery, approximately 13% and 14% of the mortgage loans in our single-family credit guarantee portfolio as of September 30, 2015 and December 31, 2014, respectively, had second-lien financing by the originator or other third party at origination of the first mortgage loan. As of both September 30, 2015 and December 31, 2014, we estimate that these mortgage loans comprised 18% of our seriously delinquent mortgage loans based on UPB. Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgage loans.

Higher-Risk Mortgage Loans

We monitor certain higher-risk mortgage loans in our portfolio. The table below presents information about certain categories of single-family mortgage loans in our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These mortgage loans include categories based on product type and borrower characteristics present at origination. The table includes a presentation of each higher risk category in isolation. A single mortgage loan may fall within more than one category (for example, an interest-only mortgage loan may also have an original LTV ratio greater than 90%). Mortgage loans with a combination of these characteristics will have an even higher risk of default than those with a single characteristic. However, we may continue to purchase certain of these mortgage loans if they are covered by credit enhancements for the UPB in excess of 80% or if they are HARP mortgage loans.

Table 33 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio

	As of September 30, 2015			
	UPB	Estimated Current LTV ⁽²⁾	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Mortgage loans with one or more specified characteristics	\$358.8	85	% 8.8	% 3.23
Categories (individual characteristics):				
Alt-A	42.4	79	22.4	7.01
Interest-only ⁽³⁾	23.4	82	0.1	7.11
Option ARM ⁽⁴⁾	5.2	73	13.6	8.46
Original LTV ratio greater than 90%, non-HARP mortgage loans	138.9	85	8.8	2.90
Original LTV ratio greater than 90%, HARP mortgage loans	137.9	91	1.2	1.13
Lower credit scores at origination (less than 620)	42.3	75	20.5	6.89
	As of December 31, 2014			
	UPB	Estimated Current LTV ⁽²⁾	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Mortgage loans with one or more specified characteristics	\$364.3	88	% 8.5	% 4.16
Categories (individual characteristics):				
Alt-A	48.3	82	19.9	8.53
Interest-only ⁽³⁾	27.8	87	0.2	9.36
Option ARM ⁽⁴⁾	5.7	79	12.5	9.87
Original LTV ratio greater than 90%, non-HARP mortgage loans	123.2	87	9.4	3.97

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Original LTV ratio greater than 90%, HARP mortgage loans	149.0	96	0.8	1.18
Lower credit scores at origination (less than 620)	44.9	79	19.2	8.57

(1) Categories are not additive and exclude mortgage loans underlying certain Other Guarantee Transactions for which data was not available.

(2) See endnote (2) to “Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio” for information about current LTV ratios.

(3) When an interest-only mortgage loan is modified to require repayment of principal, the mortgage loan is removed from the interest-only category. The percentages of interest-only mortgage loans which have been modified at period end reflect mortgage loans that have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.

(4) For reporting purposes, mortgage loans in the option ARM category continue to be reported in that category following modification, even though the modified mortgage loan no longer provides for optional payment provisions.

A significant portion of the mortgage loans in the higher-risk categories presented in the table above (other than HARP mortgage loans) are included in our 2005-2008 Legacy single-family book. The UPB of mortgage loans with one or more of these higher-risk characteristics in our single-family credit guarantee portfolio was \$358.8 billion and \$364.3 billion at September 30, 2015 and December 31, 2014, respectively.

Table of Contents

Mortgage Loans with Payment Changes

There are several types of mortgage loan products that contain terms which result in scheduled changes in the borrower's monthly payments after specified initial periods. In most cases, the change will result in an increase in the borrower's monthly payment, which may increase the risk that the borrower will default on the mortgage loan.

The table below presents information for mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at September 30, 2015 that contain terms that will result in payment changes for the borrower, but have not yet experienced any such payment change. The UPB amounts in the table below are aggregated by product type and categorized by the year in which the mortgage loan will first experience a payment change. The timing of the actual payment change may differ from that presented in the table due to a number of factors, including if the borrower refinances the mortgage loan.

Table 34 — Single-Family Mortgage Loans with Scheduled Payment Changes by Year at September 30, 2015

	Last Three Months of 2015 (in millions)	2016	2017	2018	2019	Thereafter	Total
ARM/interest-only ⁽²⁾	\$1,976	\$3,085	\$5,025	\$1,992	\$114	\$263	\$12,455
Fixed/interest-only ⁽²⁾	87	442	1,995	429	6	138	3,097
ARM/amortizing ⁽³⁾	545	4,230	4,660	5,369	9,316	25,188	49,308
Step-rate modified ⁽⁴⁾	2,068	8,797	5,721	4,194	2,319	758	23,857
							\$88,717

(1) Excludes mortgage loans underlying Other Guarantee Transactions (such as option ARM loans), since the payment change information is not available to us for these mortgage loans.

(2) Categorized by the year in which the mortgage loan begins requiring payment of principal.

(3) Categorized by the year of first scheduled contractual reset date.

(4) Represents modified mortgage loans that are scheduled to experience the first increase in their contractual interest rate in a given year. Includes the portion, if any, of UPB that is non-interest bearing under the terms of the modification.

"Step-rate modified loans" is the term that we generally use to refer to our HAMP mortgage loans that have provisions for reduced interest rates that remain fixed for the first five years and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification. We had \$39.5 billion and \$42.3 billion in UPB of step-rate modified mortgage loans in our single-family credit guarantee portfolio at September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015 and December 31, 2014, the serious delinquency rate of all step-rate modified mortgage loans in our single-family credit guarantee portfolio was 7.78% and 9.20%, respectively. As of September 30, 2015, the average current interest rate for all step-rate modified mortgage loans was 2.59%, and the average final interest rate that these mortgage loans are scheduled to reach in the future was 4.45%. In January 2015, we implemented an additional borrower incentive for eligible borrowers who continue to perform on their HAMP mortgage loans that is designed to reduce the risk that these borrowers will default on their mortgage loans. In July 2015, we implemented a new initiative to help borrowers who become (or are at risk of becoming) delinquent on step-rate modified mortgage loans under HAMP. In this initiative, our servicers evaluate borrowers either for a non-HAMP streamlined modification if they become 60 days delinquent within 12 months after a step rate increase in the interest rate of their mortgage loan or for a non-HAMP standard modification under certain circumstances indicating that the borrower faces imminent default as a result of a step rate increase in the preceding 12 months.

Excluding mortgage loans underlying Other Guarantee Transactions, we had \$87.4 billion and \$92.7 billion in UPB of ARM loans in our single-family credit guarantee portfolio as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015 and December 31, 2014, the serious delinquency rate of ARM loans in our single-family credit guarantee portfolio was 10.02% and 11.58%, respectively. We believe that the serious

delinquency rate for ARM loans will continue to remain high during the remainder of 2015.

Our exposure to interest-only mortgage loans and option ARM loans at September 30, 2015 and December 31, 2014 was not significant, as these types of mortgage loans collectively represented approximately 1% and 2%, respectively, of the UPB of our single-family credit guarantee portfolio.

Other Categories of Single-Family Mortgage Loans

While we have referred to certain mortgage loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-Q, there is no universally accepted definition of subprime or Alt-A, and the classification of such mortgage loans may differ from company to company. For example, some financial institutions may use credit scores to delineate certain residential mortgage loans as subprime. In addition, we do not rely primarily on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio. For a description of the subprime and Alt-A single-family loans and securities in this Form 10-Q, see "GLOSSARY."

Table of Contents

Subprime Mortgage Loans

Participants in the mortgage loan market may characterize single-family mortgage loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the mortgage loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of mortgage loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see "Table 33 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio," and "Table 36 — Single-Family Credit Guarantee Portfolio by Attribute Combinations" for further information). In addition, we estimate that approximately \$1.5 billion and \$1.7 billion in UPB of security collateral underlying our Other Guarantee Transactions at September 30, 2015 and December 31, 2014, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At September 30, 2015 and December 31, 2014, we held \$18.5 billion and \$27.7 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime mortgage loans. The credit performance of mortgage loans underlying these securities has deteriorated significantly since 2008.

Alt-A Mortgage Loans

Many mortgage market participants classify single-family mortgage loans with credit characteristics that range between their prime and subprime categories as Alt-A because these mortgage loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgage loans in cases where the mortgage loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance initiative; or (c) part of another refinance mortgage loan initiative and the pre-existing mortgage loan (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage loan and the original loan had been previously identified as Alt-A, such refinance mortgage loan may no longer be categorized or reported as an Alt-A mortgage loan in this Form 10-Q and our other financial reports because the new refinance mortgage loan replacing the original mortgage loan would not be identified by the seller/servicer as an Alt-A mortgage loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to September 30, 2015, we have purchased approximately \$32.5 billion of relief refinance mortgage loans that were previously categorized as Alt-A mortgage loans in our portfolio, including \$1.2 billion during the nine months ended September 30, 2015.

The UPB of Alt-A mortgage loans in our single-family credit guarantee portfolio declined to \$42.4 billion as of September 30, 2015 from \$48.3 billion as of December 31, 2014 primarily due to borrowers refinancing into other mortgage loan products, foreclosure transfers, and other liquidation events. For reporting purposes, mortgage loans within the Alt-A category continue to be reported in that category following a modification of the mortgage loan, even though the borrower may have provided full documentation of assets and income before completing the modification. As of September 30, 2015 and December 31, 2014, approximately 22.4% and 19.9%, respectively, of the Alt-A mortgage loans within our single-family credit guarantee portfolio had completed a modification. As of September 30, 2015, for Alt-A mortgage loans in our single-family credit guarantee portfolio, the average credit score at origination was 708. Although Alt-A mortgage loans comprised approximately 3% of our single-family credit guarantee portfolio as of September 30, 2015, these loans represented approximately 24% of our credit losses during the nine months ended September 30, 2015.

The table below presents credit loss and portfolio concentration information and indicates that certain concentrations of mortgage loans, including Alt-A mortgage loans, have been more adversely affected by declines in home prices and weak economic conditions during the housing crisis that began in 2006.

Table of Contents

Table 35 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of September 30, 2015			As of December 31, 2014		
	Alt-A UPB	Non Alt-A UPB	Total UPB	Alt-A UPB	Non Alt-A UPB	Total UPB
(in billions)						
Geographic distribution:						
Arizona, California, Florida, and Nevada ⁽¹⁾	\$ 18	\$ 430	\$ 448	\$ 21	\$ 413	\$ 434
Illinois, Michigan, and Ohio ⁽²⁾	3	168	171	3	169	172
New York and New Jersey ⁽³⁾	5	140	145	7	138	145
All other states	16	913	929	19	895	914
Book year category: ⁽⁴⁾						
New single-family book	—	1,097	1,097	—	994	994
HARP and other relief refinance mortgage loans	—	310	310	—	331	331
2005-2008 Legacy single-family book	36	150	186	42	176	218
Pre-2005 Legacy single-family book	6	94	100	8	114	122
Nine Months Ended September 30, 2015						
	Alt-A	Non Alt-A	Total	2014 Alt-A	Non Alt-A	Total
(in millions)						
Credit Losses						
Geographic distribution:						
Arizona, California, Florida, and Nevada ⁽¹⁾	\$ 380	\$ 774	\$ 1,154	\$ 183	\$ 877	\$ 1,060
Illinois, Michigan, and Ohio ⁽²⁾	84	460	544	56	415	471
New York and New Jersey ⁽³⁾	342	837	1,179	70	226	296
All other states	226	1,151	1,377	116	903	1,019
Book year category: ⁽⁴⁾						
New single-family book	—	117	117	—	69	69
HARP and other relief refinance mortgage loans	—	305	305	—	209	209
2005-2008 Legacy single-family book	959	2,432	3,391	403	1,953	2,356
Pre-2005 Legacy single-family book	73	368	441	22	190	212

(1) Represents the four states that had the largest cumulative declines in home prices during the housing crisis that began in 2006, as measured using Freddie Mac's home price index.

(2) Represents selected states in the North Central region that have experienced adverse economic conditions since 2006.

(3) Represents two states with a judicial foreclosure process in which there are a significant number of seriously delinquent mortgage loans within our single-family credit guarantee portfolio.

The New single-family book reflects mortgage loans originated since 2008. HARP and other relief refinance mortgage loans are presented separately rather than in the New single-family book. All other refinance mortgage loans are presented based on the year that the refinancing occurred.

For more information about credit losses associated with our single-family credit guarantee portfolio, see "CONSOLIDATED RESULTS OF OPERATIONS — Benefit (Provision) for Credit Losses — Credit Loss Performance."

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A mortgage loans. At September 30, 2015 and December 31, 2014, we held investments of \$4.2 billion and \$6.0 billion in UPB, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. The credit performance of mortgage loans underlying these securities deteriorated significantly since 2008. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions.

Managing Problem Mortgage Loans

Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgage loans and provides alternatives to foreclosure. Our servicers have an active role in our efforts to manage problem mortgage loans, as we rely on them to perform mortgage loan workout activities as well as foreclosures on mortgage loans that they service for us. Our single-family loss mitigation activities include providing our servicers with default management programs designed to help them manage non-performing mortgage loans more effectively and to assist borrowers in maintaining home ownership, or facilitate foreclosure alternatives. Our loss mitigation programs include both our relief refinance initiative and our mortgage loan workout activities, which include forbearance arrangements, repayment plans, mortgage loan modifications, and foreclosure alternatives. If our loss mitigation efforts are not successful, we may ultimately pursue foreclosure.

We actively monitor servicer performance. From time to time, we facilitate the transfer of servicing for certain groups of mortgage loans that are delinquent or are deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the mortgage loans.

Table of Contents

Risk Profile

The following table includes information about the composition of mortgage loans in our single-family credit guarantee portfolio and their related serious delinquency rates.

Table 36 — Single-Family Credit Guarantee Portfolio by Attribute Combinations

	As of September 30, 2015									
	Current LTV Ratio ≤ 80 ⁽¹⁾		Current LTV Ratio of > 80 to 100 ⁽¹⁾		Current LTV > 100 ⁽¹⁾		All Mortgage Loans ⁽¹⁾			
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Percentage Modified	Serious Delinquency Rate	
New single-family book										
By Credit score:										
Credit scores < 620	0.2	% 2.31	% —	% 4.43	% —	% 14.55	% 0.2	% 2.9	% 2.74	%
Credit scores of 620 to 659	1.2	0.98	0.2	1.52	—	7.50	1.4	1.2	1.09	
Credit scores ≥ 660	54.3	0.15	8.8	0.28	0.1	1.82	63.2	0.2	0.17	
Credit scores not available	—	1.70	0.1	4.11	—	10.00	0.1	2.9	3.63	
Total New single-family book	55.7	0.18	9.1	0.35	0.1	3.42	64.9	0.2	0.20	
By Region: ⁽²⁾										
North Central	8.5	0.15	2.0	0.30	—	1.45	10.5	0.2	0.18	
Northeast	14.1	0.26	2.6	0.54	0.1	4.15	16.8	0.3	0.31	
Southeast	7.8	0.20	1.6	0.33	—	5.61	9.4	0.2	0.24	
Southwest	7.5	0.17	1.3	0.26	—	2.23	8.8	0.2	0.18	
West	17.8	0.11	1.6	0.18	—	0.53	19.4	0.1	0.11	
Total New single-family book	55.7	0.18	9.1	0.35	0.1	3.42	64.9	0.2	0.20	
HARP and other relief refinance mortgage loans										
By Credit score:										
Credit scores < 620	0.5	1.57	0.2	2.91	0.2	4.22	0.9	3.1	2.30	
Credit scores of 620 to 659	0.7	1.00	0.4	2.04	0.2	3.12	1.3	1.8	1.59	
Credit scores ≥ 660	10.6	0.28	3.7	0.92	1.8	1.73	16.1	0.5	0.55	
Total HARP and other relief refinance mortgage loans	11.8	0.38	4.3	1.14	2.2	2.04	18.3	0.8	0.70	
By Region: ⁽²⁾										
North Central	2.1	0.37	1.0	1.08	0.5	2.11	3.6	0.7	0.74	
Northeast	2.6	0.56	1.2	1.62	0.6	3.10	4.4	1.1	1.09	
Southeast	2.0	0.35	0.8	0.92	0.5	1.55	3.3	0.6	0.63	
Southwest	1.3	0.29	0.2	1.12	0.1	1.78	1.6	0.4	0.44	
West	3.8	0.31	1.1	0.94	0.5	1.49	5.4	0.8	0.53	
Total HARP and other relief refinance	11.8	0.38	4.3	1.14	2.2	2.04	18.3	0.8	0.70	

mortgage loans

Legacy single-family

book

By Credit score:

Credit scores < 620	0.8	6.68	0.3	13.63	0.3	21.36	1.4	30.0	9.35
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Credit scores of 620 to 659	1.5	4.80	0.6	10.75	0.4	17.87	2.5	24.3	7.06
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Credit scores ≥ 660	8.8	2.01	2.5	7.44	1.4	12.89	12.7	11.2	3.24
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Credit scores not available	0.2	5.10	—	17.44	—	20.96	0.2	13.0	6.02
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Total Legacy single-family book	11.3	2.76	3.4	8.73	2.1	15.02	16.8	14.4	4.28
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By Region:⁽²⁾

North Central	1.7	2.22	0.7	6.77	0.3	12.43	2.7	13.0	3.57
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Northeast	2.9	4.05	0.9	14.35	0.6	24.32	4.4	14.9	6.68
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Southeast	2.3	2.86	0.7	7.74	0.6	13.07	3.6	14.6	4.36
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Southwest	1.6	2.25	0.2	8.57	—	15.66	1.8	8.2	2.75
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West	2.8	1.99	0.9	5.99	0.6	9.69	4.3	19.8	3.10
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Total Legacy single-family book	11.3	2.76	3.4	8.73	2.1	15.02	16.8	14.4	4.28
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Total single-family

credit guarantee portfolio	78.8	%	0.90	%	16.8	%	2.50	%	4.4	%	8.09	%	100.0	%	4.1	%	1.41	%
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(1) The current LTV ratios are our estimates. See endnote (2) to “Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio” for further information.

Presentation with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA);

(2) Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

Table of Contents

The following table provides information about the relief refinance mortgage loans that we either purchased or guaranteed.

Table 37 — Single-Family Relief Refinance Mortgage Loans⁽¹⁾

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014			
	UPB	Number of Mortgage Loans	Average Mortgage Loan Balance ⁽²⁾	UPB	Number of Mortgage Loans	Average Mortgage Loan Balance ⁽²⁾	
	(dollars in millions, except for average mortgage loan balances)						
Purchases of relief refinance mortgage loans:							
HARP:							
Above 125% LTV ratio	\$472	3,093	\$152,000	\$1,232	7,475	\$165,000	
Above 100% to 125% LTV ratio	1,684	9,664	174,000	3,581	19,986	179,000	
Above 80% to 100% LTV ratio	4,012	23,482	171,000	6,756	39,784	170,000	
Other (80% and below LTV ratio)	9,713	69,016	141,000	9,988	73,396	136,000	
Total relief refinance mortgage loans	\$15,881	105,255	151,000	\$21,557	140,641	153,000	
	As of September 30, 2015			As of December 31, 2014			
	UPB	Number of Mortgage Loans	Serious Delinquency Rate	UPB	Number of Mortgage Loans	Serious Delinquency Rate	
	(dollars in millions)						
Balance of relief refinance mortgage loans:							
HARP:							
Above 125% LTV ratio	\$28,815	158,821	1.36	% \$30,233	162,299	1.36	%
Above 100% to 125% LTV ratio	61,017	329,796	1.16	66,091	346,220	1.19	
Above 80% to 100% LTV ratio	100,307	577,858	0.85	109,618	609,239	0.93	
Other (80% and below LTV ratio)	119,923	949,379	0.35	125,158	957,435	0.36	
Total relief refinance mortgage loans	\$310,062	2,015,854	0.70	\$331,100	2,075,193	0.75	

(1) Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.

(2) Rounded to the nearest thousand.

For more information on relief refinance mortgage loans, including HARP, in our single-family credit guarantee portfolio, see "Table 27 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio" and "Table 30 — Single-Family Credit Guarantee Portfolio Data by Year of Origination."

Table of Contents

The table below presents volumes of completed mortgage loan workouts, seriously delinquent mortgage loans, and foreclosures in our single-family credit guarantee portfolio during the three and nine months ended September 30, 2015 and during the three and nine months ended September 30, 2014.

Table 38 — Single-Family Mortgage Loan Workout, Serious Delinquency, and Foreclosure Volumes

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Number of Mortgage Loans	Mortgage Loan Balances	Number of Mortgage Loans	Mortgage Loan Balances	Number of Mortgage Loans	Mortgage Loan Balances	Number of Mortgage Loans	Mortgage Loan Balances
	(dollars in millions)							
Home retention actions:								
Mortgage loan modifications								
with no change in terms ⁽²⁾	13	\$1	73	\$8	45	\$5	287	\$37
with term extension	5,165	765	5,194	751	17,402	2,496	10,103	1,516
with change in interest rate and, in certain cases, term extension	5,537	1,110	7,953	1,526	18,697	3,675	27,722	5,332
with change in interest rate, term extension and principal forbearance	2,052	491	3,663	839	6,935	1,650	14,026	3,195
Total mortgage loan modifications ⁽³⁾	12,767	2,367	16,883	3,124	43,079	7,826	52,138	10,080
Repayment plans ⁽⁴⁾	4,959	716	5,441	759	16,649	2,372	19,744	2,769
Forbearance agreements	1,258	242	2,148	401	4,866	941	6,751	1,255
Total home retention actions	18,984	3,325	24,472	4,284	64,594	11,139	78,633	14,104
Foreclosure alternatives:								
Short sale								
Deed in lieu of foreclosure transactions	2,533	533	3,881	829	8,338	1,761	12,235	2,621
Total foreclosure alternatives	518	79	969	149	1,957	307	2,740	433
Total single-family mortgage loan workouts ⁽⁵⁾	3,051	612	4,850	978	10,295	2,068	14,975	3,054
Single-family foreclosures ⁽⁶⁾	22,035	\$3,937	29,322	\$5,262	74,889	\$13,207	93,608	\$17,158
Seriously delinquent mortgage loan additions	9,882		11,807		32,018		39,428	
Seriously delinquent mortgage loans, at period end ⁽⁷⁾	38,921		48,323		117,807		144,375	
	150,564		207,862		150,564		207,862	

Excludes those modification, repayment, and forbearance activities for which the borrower has started the required process, but the actions have not become effective, such as mortgage loans in modification trial periods. These categories are not mutually exclusive, and a mortgage loan in one category may also be included in another category in the same period.

(1)

(2)

Under this modification type, past due amounts are added to the principal balance and amortized based on the original contractual mortgage loan terms.

Includes completed mortgage loan modifications under HAMP; however, the number of such completions differs (3) from that reported by the MHA Program administrator, in part, due to differences in the timing of recognizing the completions by us and the administrator.

Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a (4) repayment plan for past due amounts. Excludes borrowers that are repaying past due amounts under a repayment plan.

(5) Workouts relate to borrowers with financial hardship, regardless of the payment status (i.e., less than seriously delinquent).

(6) Consists of REO acquisitions as well as third-party sales at foreclosure auction in which ownership of the property is transferred directly to a third party rather than to us.

(7) The number of seriously delinquent mortgage loans is also reduced when borrowers resume scheduled payments and the mortgage loans return to performing status.

The volume of our foreclosures and short sales declined during the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014, continuing the trend in recent periods. The volume of foreclosures and short sales in the overall market has also declined in recent periods.

During the nine months ended September 30, 2015, we helped nearly 75,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various mortgage loan workout programs, and we completed approximately 32,000 foreclosures. We bear the full costs associated with our mortgage loan workouts on mortgage loans that we own or guarantee, and do not receive any reimbursement from Treasury (except as discussed below).

During the nine months ended September 30, 2015, approximately 43,000 borrowers having mortgage loans with aggregate UPB of \$7.8 billion completed modifications under all of our programs, and as of September 30, 2015, more than 23,000 borrowers were in a modification trial period. The number of seriously delinquent mortgage loans remaining in the portfolio declined during the nine months ended September 30, 2015, continuing the trend of the last several periods. The volume of mortgage loan modifications in this period also declined.

Table of Contents

The UPB of mortgage loans in our single-family credit guarantee portfolio for which we have completed a mortgage loan modification was \$84.5 billion and \$85.1 billion as of September 30, 2015 and December 31, 2014, respectively, and such mortgage loans comprised approximately 4.1% of the portfolio at both September 30, 2015 and December 31, 2014. The estimated weighted average current LTV ratio for all modified mortgage loans in our single-family credit guarantee portfolio was 89% at September 30, 2015. The serious delinquency rate on these mortgage loans was 10.67% as of September 30, 2015.

Based on information provided by the MHA Program administrator, our servicers had completed more than 254,000 mortgage loan modifications under HAMP from the introduction of the initiative in 2009 through September 30, 2015. In January 2015, at the instruction of FHFA, we implemented a new \$5,000 borrower incentive for eligible borrowers who remain in good standing on their HAMP modified mortgage loans through the sixth anniversary of their modification. Treasury will pay the \$5,000 incentive for certain of our eligible HAMP modified mortgage loans, and we will pay the \$5,000 incentive on our remaining eligible HAMP modified mortgage loans. Our payment of these incentives is not expected to have a significant effect on our earnings.

The table below presents the percentage of modified single-family mortgage loans completed between the fourth quarter of 2012 and the third quarter of 2014 that were current or paid off one year after modification and the percentage of modified single-family mortgage loans completed between the fourth quarter of 2012 and the third quarter of 2013 that were current or paid off two years after modification.

Table 39 — Quarterly Percentages of Modified Single-Family Mortgage Loans — Current or Paid¹ Off

	Quarter of Mortgage Loan Modification Completion ⁽²⁾								
	3Q 2014	2Q 2014	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013	4Q 2012	
One Year Post-Modification									
HAMP modifications	80	% 79	% 82	% 81	% 80	% 80	% 82	% 80	%
Non-HAMP modifications	66	68	71	70	73	74	76	72	
Total	69	70	74	72	75	76	78	75	
Two Years Post-Modification									
HAMP modifications	N/A	N/A	N/A	N/A	78	% 78	% 79	% 77	%
Non-HAMP modifications	N/A	N/A	N/A	N/A	71	71	72	68	
Total	N/A	N/A	N/A	N/A	73	73	74	71	

(1) Represents the percentage of mortgage loans that were current and performing or had been paid in full.

(2) For mortgage loans that have been remodified (e.g., where a borrower has received a new modification after defaulting on the prior modification) the rates reflect the status of each modification separately.

As shown in the table above, the one-year performance of our non-HAMP modified mortgage loans has declined in comparison to the performance of our HAMP modified mortgage loans. This decline in performance may be attributable to features of our streamlined modification, which in contrast to our other types of mortgage loan modifications includes no documentation requirements.

Mortgage loans that remain delinquent for more than a year are more challenging to resolve. The longer a mortgage loan remains delinquent, the greater the associated costs we incur, in part due to expenses associated with loss mitigation and foreclosure. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. Our ability to manage problem mortgage loans has been adversely affected by delays, including those due to increases in foreclosure process timeframes, general constraints on servicer capacity, and court backlogs in areas that require a judicial foreclosure process. As of September 30, 2015 and December 31, 2014, the percentage of seriously delinquent mortgage loans that have been delinquent for more than six months was 67% and 69%, respectively. In 2014, we began to sell certain seriously delinquent mortgage loans that were delinquent for extended periods of time. In March 2015, FHFA announced requirements for future sales of seriously delinquent mortgage loans by us, including bidder qualification, mortgage loan modification, and performance reporting requirements. During the nine months ended September 30, 2015, we completed sales of \$1.9 billion in UPB of seriously delinquent single-family mortgage loans, and as of September 30, 2015, we held \$7.1 billion in UPB of

seriously delinquent mortgage loans for sale.

The table below presents the average completion times in certain states for foreclosures completed during the nine months ended September 30, 2015 and the nine months ended September 30, 2014.

Table of ContentsTable 40 — Foreclosure Timelines for Single-Family Mortgage Loans⁽¹⁾

	Nine Months Ended September 30,	
	2015	2014
	(average days)	
Judicial states:		
Florida	1,325	1,310
New Jersey	1,573	1,356
New York	1,538	1,274
All other judicial states	844	793
Judicial states, in aggregate	1,079	1,031
Non-judicial states, in aggregate	627	638
Total	890	867

(1) All averages exclude those mortgage loans underlying our Other Guarantee Transactions.

While the average foreclosure timelines for mortgage loans in our single-family credit guarantee portfolio decreased in non-judicial states in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, we believe that our average foreclosure timeline is likely to remain elevated in the near term due to the backlog of mortgage loans that have been delinquent for more than one year, particularly in the judicial states of Florida, New Jersey, and New York.

The number of mortgage loans in the process of foreclosure declined approximately 26% from December 31, 2014 to September 30, 2015 to the lowest level in several years, with most states experiencing a decline. The UPB of mortgage loans that have been delinquent for more than one year declined from \$18.2 billion at December 31, 2014 to \$13.0 billion as of September 30, 2015.

Managing REO and Foreclosure Activities

Our problem mortgage loan workouts are providing borrowers with viable alternatives to foreclosure. As a result, fewer of our mortgage loans are proceeding through foreclosure to REO acquisition. Our single-family REO inventory (measured in number of properties) declined 31% from December 31, 2014 to September 30, 2015 primarily due to: (a) REO dispositions exceeding our acquisitions; (b) a declining number of seriously delinquent mortgage loans; and (c) property sales to third parties at foreclosure auction.

In recent periods, third-party sales at foreclosure auction comprised an increasing portion of foreclosure transfers. Third-party sales at foreclosure auction allow us to avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition.

We evaluate the condition of and market for newly acquired REO properties to determine pre-listing needs, such as: (a) whether repairs are needed; (b) whether we need to consider occupancy (by tenant or owner), borrower redemption, or other issues; and (c) the sale or disposition strategy. Often we will need to complete the eviction process or await tenant vacancy before determining if repairs are needed. When we list a REO property for sale, we typically provide an initial period where we consider offers on the property by owner occupants and non-profits dedicated to neighborhood stabilization before we consider offers from investors. We may also consider alternative disposition processes, such as REO auctions, bulk sales channels, and partnering with locally-based private entities to facilitate dispositions.

Risk Profile

Our REO acquisition activity is disproportionately high for certain types of mortgage loans, including mortgage loans with certain higher-risk characteristics. For example, while the percentage of interest-only and Alt-A mortgage loans in our single-family credit guarantee portfolio, based on UPB, was approximately 1% and 3%, respectively, at September 30, 2015, the percentage of our REO acquisitions during the nine months ended September 30, 2015 that had been financed by either of these mortgage loan types represented approximately 20% of our total REO acquisitions, based on mortgage loan amount prior to acquisition. In addition, mortgage loans from our 2005-2008 Legacy single-family book comprised approximately 69% of our REO acquisition activity during the nine months ended September 30, 2015.

As of September 30, 2015, approximately 52% of our REO properties were unable to be marketed because the properties were occupied, under repair, or are located in states with a redemption period and 13% of the properties were being evaluated for listing and determination of our sales strategy. As of September 30, 2015, approximately 22% of our REO properties were listed and available for sale and 13% of our inventory was pending the settlement of sales. Though it varied significantly in different states, the average holding period of our single-family REO properties, excluding any redemption period, was 251 days and 221 days for our REO dispositions during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Table of Contents

Multifamily Mortgage Credit Risk

We are exposed to mortgage credit risk in our multifamily mortgage portfolio because we either hold mortgage assets or have guaranteed mortgage loans in connection with the issuance of a Freddie Mac mortgage-related security or other guarantee commitment. To manage the credit risk in our multifamily mortgage portfolio, we focus on: (a) using strong underwriting standards and processes on all mortgage loans we purchase and guarantee, including a prior approval underwriting approach on the substantial majority of mortgage loans we purchase or guarantee; (b) selling the vast majority of the expected credit risk to private investors that hold the subordinated tranches in our multifamily K Certificate and other similar securitizations; and (c) portfolio management activities, including loss mitigation. Through our underwriting process, we evaluate the mortgage loans and the underlying properties by reviewing a variety of mortgage loan characteristics that may affect the default experience on our multifamily mortgage portfolio, such as the debt service coverage ratio, LTV ratio, geographic location, payment type, and mortgage loan maturity. In addition, after the mortgage loans have been securitized and the vast majority of the expected credit risk has been transferred to third party investors, we monitor the performance of our K Certificates and other similar types of transactions to assess our potential exposure to losses.

Risk Profile

The table below provides certain attributes of our multifamily mortgage portfolio at September 30, 2015 and December 31, 2014.

Table 41 — Multifamily Mortgage Portfolio — by Attribute

	UPB at		Delinquency Rate at		
	September 30, 2015 (dollars in billions)	December 31, 2014	September 30, 2015	December 31, 2014	
Total Mortgage Portfolio	\$161.8	\$143.3	0.01	% 0.04	%
Unsecuritized mortgage loans, excluding held-for-sale mortgage loans: ⁽¹⁾					
Original LTV ratio:					
Below 75%	\$23.1	\$30.3	—	% 0.04	%
75% to 80%	7.5	9.8	—	—	
Above 80%	0.9	0.7	—	—	
Total	\$31.5	\$40.8	—	% 0.03	%
Weighted average LTV ratio at origination	68	% 68	%		
Maturity Dates:					
2015	\$0.2	\$3.0	—	% —	%
2016	3.2	5.8	—	—	
2017	5.0	5.8	—	—	
2018	7.9	8.4	—	—	
2019	7.0	7.4	—	0.15	
Beyond 2019	8.2	10.4	—	—	
Total	\$31.5	\$40.8	—	% 0.03	%
Year of Acquisition:					
2010 and prior	\$25.9	\$35.5	—	% 0.03	%
2011 and after	5.6	5.3	—	—	
Total	\$31.5	\$40.8	—	% 0.03	%
Freddie Mac Mortgage-Related Securities: ⁽²⁾					
Year of Security Issuance:					
2010 and prior	\$10.6	\$11.0	0.07	% 0.39	%

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2011	10.8	11.2	0.12	—	
2012	16.0	16.5	—	—	
2013	23.2	23.9	—	—	
2014	17.8	18.5	—	—	
2015	19.5	N/A	—	N/A	
Total	\$97.9	\$81.1	0.02	% 0.05	%
Subordination Level at Issuance:					
No subordination	\$1.9	\$0.8	0.01	% 0.06	%
Below 10%	5.2	4.4	—	—	
10% to 15%	37.6	32.0	0.05	0.14	
Above 15%	53.2	43.9	—	—	
Total	\$97.9	\$81.1	0.02	% 0.05	%

Table of Contents

- (1) Multifamily held-for-sale mortgage loans are primarily those awaiting securitization, and totaled \$22.7 billion and \$12.1 billion as of September 30, 2015 and December 31, 2014, respectively.
- (2) Consists of mortgage loans and bonds underlying Freddie Mac mortgage-related securities, which are primarily our K Certificates. Excludes other guarantee commitments.

Multifamily Product Types

Most multifamily mortgage loans require a significant lump sum (i.e., balloon) payment of unpaid principal at maturity. Therefore, the borrower's potential inability to refinance or pay off the mortgage loan at maturity is a key mortgage loan attribute we monitor. Borrowers may be less able to refinance their obligations during periods of rising interest rates or adverse market conditions, which could lead to default if the borrower is unable to find affordable refinancing before the mortgage loan matures. Of the \$31.5 billion in UPB of our unsecuritized held-for-investment multifamily mortgage loans as of September 30, 2015, approximately 11% will mature during the fourth quarter of 2015 or in 2016, and the remaining 89% will mature in 2017 and beyond. Approximately 89% of the multifamily mortgage loans underlying Freddie Mac-issued mortgage-related securities are scheduled to mature in 2019 and beyond.

Our multifamily mortgage portfolio consists of product types that are categorized based on mortgage loan terms. Multifamily mortgage loans may be amortizing or interest-only (for the full term or a portion thereof) and have a fixed or variable rate of interest. Our multifamily mortgage loans generally have shorter terms than single-family mortgage loans and typically have balloon maturities ranging from five to ten years.

Multifamily Credit Enhancements

Our primary business model in the Multifamily segment is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. With this model, we have securitized \$114.7 billion in UPB of multifamily mortgage loans between 2009 and September 30, 2015 and have attracted private capital to the multifamily market. In our multifamily K Certificate offerings, private investors purchase securities backed by mortgage loans that are sourced by our seller/servicers and directly underwritten by us. Our K Certificate offerings are primarily structured to sell unguaranteed subordinated securities to private investors that are the first to absorb losses on the underlying mortgage loans. The amount of subordination to the guaranteed certificates is set at a level that we believe is sufficient to cover amounts in excess of the expected credit losses on the mortgage loans. As a result, we believe private investors will absorb the expected credit risk in these transactions and thereby reduce the loss exposure to us and U.S. taxpayers. At September 30, 2015 and December 31, 2014, the UPB of K Certificates with subordination coverage was \$90.7 billion and \$75.5 billion, respectively, and the average subordination on these securities was 15% at both dates.

Multifamily Delinquencies

We report multifamily delinquency rates based on UPB of mortgage loans in our multifamily mortgage portfolio that are two monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Mortgage loans that have been modified are not counted as delinquent as long as the borrower is less than two monthly payments past due under the modified terms.

As of September 30, 2015 and December 31, 2014, there were three and eight delinquent mortgage loans in our multifamily mortgage portfolio, respectively. Our multifamily mortgage portfolio delinquency rate of 0.01% and 0.04% at September 30, 2015 and December 31, 2014, respectively, reflects continued strong portfolio performance and positive market fundamentals. Our delinquency rate for credit-enhanced mortgage loans was 0.02% and 0.05% at September 30, 2015 and December 31, 2014, respectively. Our non-credit-enhanced delinquency rate was 0.02% at December 31, 2014. We did not have any delinquent non-credit-enhanced mortgage loans at September 30, 2015. The delinquency rate on mortgage loans underlying our K Certificates transactions was 0.02% and 0.01% at September 30, 2015 and December 31, 2014, respectively. Since we began issuing K Certificates, we have experienced no credit losses associated with our guarantees on these securities. As of September 30, 2015, all mortgage loans in our multifamily mortgage portfolio that were two or more monthly payments past due had credit-enhancements that, we currently believe, will mitigate our expected losses on those mortgage loans.

For more information about credit risks associated with our multifamily mortgage portfolio, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" and "NOTE 15: CONCENTRATION OF CREDIT AND

OTHER RISKS.”

Institutional Credit Risk

We have exposure to many types of institutional counterparties, including; (a) seller/servicers; (b) mortgage insurers; (c) bond insurers; (d) cash and other investments counterparties; (e) agency and non-agency mortgage-related security issuers and servicers; (f) document, securities and cash custodians; and (g) derivative counterparties.

Our principal strategies for managing institutional credit risk are: (a) maintaining policies and procedures, including eligibility standards that govern our business with our counterparties; (b) evaluating counterparty financial strength and performance; (c) monitoring our exposure to our counterparties; and (d) engaging with underperforming counterparties and limiting our losses from their nonperformance of obligations, when possible.

We use internal evaluation models to monitor the financial strength of our counterparties. These models determine probabilities of default that we use to assess and classify our counterparties. We assign risk or exposure limits to our

Table of Contents

counterparties based on this classification. We apply this risk management approach to the major types of our counterparties discussed below.

Single-family Mortgage Loan Seller/Serviceicers

We are exposed to institutional credit risk related to the potential insolvency of, or non-performance by, our single-family sellers and serviceicers. If our serviceicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption, including as a result of legal or regulatory actions or ratings downgrades, our business and financial results could be adversely affected.

We have contractual arrangements with our sellers under which they agree to sell us mortgage loans, and represent and warrant that those mortgage loans meet specified eligibility and underwriting standards. Our serviceicers represent and warrant to us that those mortgage loans will be serviced in accordance with our servicing contract. We maintain eligibility standards for our sellers and serviceicers. In the second quarter of 2015, at the direction of FHFA, we and Fannie Mae announced changes to our single-family seller and serviceicer eligibility requirements. These changes include revisions to net worth requirements, adoption of new capital and liquidity requirements, and enhancements to certain serviceicer operational requirements. Our revised operational requirements took effect on August 18, 2015 and our revised financial requirements will take effect on December 31, 2015.

Seller/serviceicers approved to do business with us are subject to our ongoing monitoring and review, which requires regular financial reporting to us. Based on our monitoring procedures, we may disqualify or suspend a seller or serviceicer with or without cause at any time. Once a seller is disqualified or suspended, we no longer accept mortgage loans originated by that counterparty and we may seek to terminate outstanding commitments. Similarly, when a serviceicer is disqualified or suspended, we no longer allow additional mortgage loans to be serviced by that serviceicer and we seek to transfer pre-existing servicing to eligible institutions.

We maintain a quality control process under which we review mortgage loans for compliance with our standards. If we discover that representations and warranties were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies may include the ability to require the seller or the serviceicer to repurchase the mortgage loan at its current UPB, reimburse us for losses realized with respect to the mortgage loan after consideration of any other recoveries, and/or indemnify us. In January 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the mortgage loans they sell us, including the dates when the seller obtains relief from certain representations and warranties.

Risk Profile

A significant portion of our single-family mortgage portfolio is acquired from, and serviced by, several large lenders. Although our business with our mortgage loan sellers is concentrated, a number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders in recent years. As a result, we are acquiring a greater portion of our business volume directly from non-depository and smaller depository financial institutions. Similarly, some non-depository institutions have grown rapidly in recent years and now service a large share of our mortgage loans. We may face increased risk from these non-depository and smaller depository financial institutions as they may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as our largest mortgage loan seller and serviceicer counterparties.

As of September 30, 2015 and December 31, 2014, we estimate that 27% and 25%, respectively, of our single-family credit guarantee portfolio was serviced by our non-depository serviceicers. Approximately 36% and 44% of our single-family credit guarantee portfolio that was serviced by our non-depository serviceicers was serviced by our three largest non-depository serviceicers, on a combined basis, as of September 30, 2015 and December 31, 2014, respectively. Certain non-depository serviceicers have been the subject of scrutiny from regulators. Several of these non-depository serviceicers also service a large share of the mortgage loans underlying our investments in non-agency mortgage-related securities.

Ocwen Financial Corp. (Ocwen) is one of our significant non-depository serviceicers. Ocwen and its subsidiaries and/or affiliates have been the subject of significant adverse regulatory scrutiny, and we have taken steps designed to reduce our exposure to them. We reduced the UPB of Freddie Mac mortgage loans serviced by Ocwen to \$28.3 billion at

September 30, 2015 from \$50.9 billion at December 31, 2014, or 44%. We continue to closely monitor Ocwen's performance.

For more information about our seller/servicers, including concentration information about these counterparties, see "RISK FACTORS — Competitive and Market Risks — Our financial results may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us" in our 2014 Annual Report and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers."

Multifamily Mortgage Loan Seller/Servicers

We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property's financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses

Table of Contents

through lender repurchases, recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily mortgage loans that we hold on our consolidated balance sheets where we retain all of the related credit risk.

We maintain eligibility standards for institutions that sell or deliver us multifamily mortgage loans for purchase or securitization. We monitor the status of our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

We acquire a significant portion of our multifamily new business volume from several large sellers. A significant portion of our multifamily mortgage portfolio is serviced by several large multifamily servicers. For more information about our multifamily seller/servicers, including concentration information about these counterparties, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers."

Mortgage Insurers

We are exposed to institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgage loans we purchase or guarantee. As a guarantor, we remain responsible for the payment of principal and interest for securities we guarantee if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers fails to fulfill its obligations, we could experience increased credit losses.

We attempt to manage this risk by establishing eligibility standards for mortgage insurers and by monitoring our exposure to individual mortgage insurers. Our monitoring includes performing periodic analysis of the financial capacity of individual mortgage insurers under various adverse economic conditions.

In the second quarter of 2015, at the direction of FHFA, we published revised eligibility requirements for mortgage insurers that include financial requirements determined using a risk-based framework. The revised eligibility requirements will become effective for all Freddie Mac-approved mortgage insurers on December 31, 2015. These revised eligibility requirements are designed to strengthen the mortgage insurance industry and enable a financially strong and resilient system that can provide consistent liquidity throughout the mortgage loan cycle.

We cannot differentiate pricing based on the financial strength of a mortgage insurer or revoke a mortgage insurer's status as an eligible insurer without FHFA approval. Further, we do not select the insurance provider on a specific mortgage loan, since the selection is made by the lender at the time the mortgage loan is originated. Accordingly, we are unable to manage our concentration risk related to mortgage insurers.

Risk Profile

The majority of our mortgage insurance exposure is concentrated with four mortgage insurers, certain of which have been under financial stress during the last several years. Although the financial condition of these mortgage insurers has improved in recent years, there is still a significant risk that some of these counterparties may fail to fully meet their obligations under a stressed economic scenario since they are monoline entities primarily exposed to mortgage credit risk. Many of our mortgage insurers are currently operating below our newly issued eligibility standards that are scheduled to go into effect on December 31, 2015; however, these mortgage insurers have announced that they expect to be in compliance by the effective date.

The table below summarizes our exposure to mortgage insurers as of September 30, 2015. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. Our most significant exposure to these insurers is through primary mortgage insurance. As of September 30, 2015, we had primary mortgage insurance coverage on mortgage loans that represented approximately 15% of the UPB of our single-family credit guarantee portfolio.

Table of ContentsTable 42 — Mortgage Insurance by Counterparty⁽¹⁾

Counterparty Name	Credit Rating	Credit Rating Outlook	As of September 30, 2015			
			UPB of Covered Loans		Coverage Outstanding	
			Primary Insurance ⁽²⁾ (in millions)	Pool Insurance ⁽²⁾	Primary Insurance ⁽³⁾	Pool Insurance ⁽³⁾
United Guaranty Residential Insurance Company	BBB+	Stable	\$55,394	\$ 20	\$ 14,262	\$ 15
Radian Guaranty Inc. (Radian)	BB	Positive	54,123	2,022	13,839	650
Mortgage Guaranty Insurance Corporation (MGIC)	BB+	Positive	52,881	153	13,614	2
Genworth Mortgage Insurance Corporation (GMIC)	BB+	Negative	35,300	79	9,043	26
Essent Guaranty, Inc.	BBB	Stable	21,320	—	5,461	—
PMI Mortgage Insurance Co. (PMI) ⁽⁴⁾	Not Rated	N/A	9,981	97	2,479	63
Republic Mortgage Insurance Company (RMIC)	Not Rated	N/A	7,790	61	1,945	29
Arch Mortgage Insurance Company	BBB+	Stable	4,714	—	1,164	—
Triad Guaranty Insurance Corporation (Triad) ⁽⁵⁾	Not Rated	N/A	3,745	40	942	5
Others	N/A	N/A	3,934	—	944	—
Total			\$249,182	\$ 2,472	\$63,693	\$ 790

Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of October 21, 2015. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage loan is covered under both types of insurance. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Table 4.6 — Recourse and Other Forms of Credit Protection" for further information.

Represents the remaining aggregate contractual limit for reimbursement of losses under the respective policy type. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage loan is covered under both types of insurance.

In March 2014, PMI began paying valid claims 67% in cash and 33% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 55% in cash. In April 2015, PMI began paying valid claims 70% in cash and 30% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 67% in cash.

In December 2013, Triad began paying valid claims 75% in cash and 25% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 60% in cash.

Radian, MGIC, and GMIC have had credit ratings below investment grade for the past several years. As a result, we have reduced expectations of recovery and collectability as part of the estimate of our loan loss reserves. RMIC is under regulatory supervision and is no longer issuing new insurance; however, it continues to pay its claims. PMI and Triad are both in rehabilitation, and a substantial portion of their claims are recorded by us as deferred payment obligations. These insurers no longer issue new insurance but continue to pay a portion of their respective claims in cash. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers shown in the table above. As of September 30, 2015, we had cumulative unpaid deferred payment obligations of \$0.4 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain. For more information on our mortgage insurers,

see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers."

Cash and Other Investments Counterparties

We are exposed to institutional credit risk relating to the potential insolvency of, or non-performance by, counterparties in non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts.

Risk Profile

Our cash and other investments (including cash equivalents) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of September 30, 2015 and December 31, 2014, including amounts related to our consolidated VIEs, there were \$58.8 billion and \$71.4 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; (b) Treasury securities classified as cash equivalents; and (c) cash deposited with the Federal Reserve Bank of New York. Although we monitor the financial strength of our counterparties to these transactions and have collateral maintenance requirements for our securities purchased under agreements to resell, we have exposure to loss should any of our counterparties become insolvent. See "RISK FACTORS — Competitive and Market Risks — Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us" in our 2014 Annual Report for further information. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for further information on counterparty credit ratings and concentrations within our cash and other investments. Our investments in non-mortgage-related securities at both September 30, 2015 and December 31, 2014 were in U.S. Treasury securities.

Table of Contents

Agency and Non-Agency Mortgage-Related Security Issuers and Servicers

Our investments in securities expose us to institutional credit risk to the extent that issuers, servicers, guarantors, or third parties providing credit enhancements become insolvent or do not perform their obligations.

Risk Profile

A significant portion of single-family mortgage loans underlying our investments in non-agency mortgage-related securities is serviced by non-depository servicers. As of September 30, 2015 and December 31, 2014, approximately \$13.5 billion and \$17.9 billion, respectively, in UPB of mortgage loans underlying our investments in single-family non-agency mortgage-related securities were serviced by subsidiaries and/or affiliates of Ocwen, and Ocwen was the only non-depository servicer who serviced 10% or more of the UPB underlying our investments in non-agency mortgage-related securities at those dates. Ocwen and its subsidiaries and/or affiliates have been the subject of significant adverse regulatory scrutiny.

Derivative Counterparties

We use cleared derivatives, exchange-traded derivatives, and OTC derivatives, and are exposed to institutional credit risk with respect to our derivative counterparties. Our derivative counterparty credit exposure relates principally to interest-rate derivative contracts.

We seek to manage our exposure to institutional credit risk related to our derivative counterparties using several tools, including:

- master netting agreements and collateral agreements;
- review and analysis of external credit ratings;
- internal standards for approving new derivative counterparties, clearinghouses, and clearing members;
- ongoing monitoring of our positions with each counterparty, clearinghouse, and clearing member; and
- stress-testing to evaluate potential exposure under possible adverse market scenarios.

Risk Profile

The table below summarizes our net exposure to derivative counterparties (after considering cash and non-cash collateral held by us).

Table 43 — Derivative Counterparty Credit Exposure

	As of September 30, 2015		
	Number of Counterparties ⁽¹⁾	Fair Value - Gain Position ⁽²⁾	Fair Value - Gain Position Net of Collateral ⁽³⁾
	(dollars in millions)		
OTC interest-rate swaps and swaptions counterparties (by ratings):			
AA- or above	5	\$288	\$—
A+, A or A-	10	1,282	42
BBB+, BBB or BBB-	2	—	—
Total OTC	17	1,570	42
Cleared and exchange-traded derivatives		—	—
Total		\$1,570	\$42

(1) Based on legal entities. We use the lower of S&P and Moody's ratings to manage collateral requirements. In this table, the Moody's rating of the legal entity is stated in terms of the S&P equivalent.

(2) Represents the fair value of derivative instruments in a net gain position after netting by counterparty, where allowable.

(3) For this purpose, collateral consists of cash and non-cash collateral posted by our counterparties to us. Does not include collateral held in excess of exposure.

Over time, our exposure to derivative counterparties varies depending on changes in fair values, which are affected by changes in interest rates, the implied volatility of interest rates, and the mix and balance of products in our derivative portfolio.

Approximately 97% of our \$1.6 billion fair value - gain position related to OTC interest-rate swap and option-based derivatives was collateralized at September 30, 2015. The remaining uncollateralized exposure was primarily due to market movements during the time period between when a derivative was measured at fair value or settled and when we received the related collateral, as well as exposure amounts below the applicable counterparty collateral posting threshold. Collateral is typically transferred within one business day based on the values of the related derivatives. For information about the concentration of credit risk among our OTC derivative counterparties, see “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Master Netting and Collateral Agreements.” We are required to post initial margin for cleared and exchange-traded derivative transactions. We posted cash and non-cash collateral of \$3.0 billion as of September 30, 2015 to meet our initial margin requirements. Under CFTC regulations, clearinghouses and clearing members are required to segregate customer property. This is designed to reduce the customer's (i.e., Freddie Mac's) credit risk exposure related to the initial margin posted by the customer. However, we are also exposed to

Table of Contents

the operational risk of the clearing members, exchanges, clearinghouses, or other financial intermediaries we use to facilitate these transactions. The immediate parent entities of the clearinghouses we use were rated AA- and A+ as of September 30, 2015.

In the event an OTC derivative or cleared derivative counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion (e.g., due to a significant interest rate movement during the period or other factors). We could also incur economic loss if non-cash collateral posted to us by the defaulting counterparty and held by the custodian cannot be liquidated at prices that are sufficient to recover the amount of such exposure. We regularly review the market values of the securities pledged to us to manage our exposure to loss. When non-cash collateral is posted to us, we require collateral in excess of our exposure to satisfy the net obligation to us in accordance with the counterparty agreement.

In addition, we have derivative liabilities where we post collateral to OTC derivative counterparties, clearinghouses and clearing members in accordance with agreed upon thresholds. In some instances, market movements result in us having provided collateral that has fair value in excess of our obligation, which represents our overcollateralization exposure. Collateral is typically transferred within one business day based on the values of the related derivatives. For information about margin we have posted in connection with our derivatives, and additional collateral we may be required to post if our credit rating by S&P or Moody's is lowered or withdrawn, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged."

We also execute forward purchase and sale commitments of mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes and utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation ("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization. In the event a clearing member fails and causes losses to the MBSD/FICC clearing system, we could be subject to the loss of any or all of the margin that we have posted to the MBSD/FICC. Moreover, our exposure could exceed that amount, as members are generally required to guarantee the performance of other members on a pro rata basis. It is difficult to estimate our maximum exposure under these transactions, as this would require an assessment of transactions that we and other members of the MBSD/FICC may execute in the future. Taking into account the MBSD/FICC's financial safeguards and our ability to terminate our membership in the clearinghouse, we believe that it is unlikely we will have to make any material payments under these arrangements and the risk of loss is expected to be remote.

Operational Risk

Overview

We define operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Operational risk is inherent in all of our activities. Events that may evidence operational risk include: (a) accounting or operational errors; (b) business interruptions; (c) fraudulent acts; (d) inappropriate acts by employees; (e) information security incidents; or (f) vendors who do not perform in accordance with their contracts. These events could result in financial loss, legal and regulatory fines, and reputational harm.

Risk Management Framework

Our operational risk management framework includes risk identification, assessment, measurement, mitigation and reporting. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems and/or processes to further mitigate the risk of future events. In 2014, we leveraged our enterprise risk management framework to begin implementation of a redesigned and enhanced three-lines-of-defense methodology. We used this redesigned and enhanced three-lines-of-defense methodology to both strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. Our framework focuses on balancing ownership of risk by our business units with corporate oversight and independent assurance of the design and effectiveness of our risk management activities.

As part of this effort, during 2015 we moved several key functions within the organization to better align business decision-making with the first line of defense. We are expanding our second-line-of-defense testing capabilities over our operational controls. We are also conducting a multi-year project focused on identifying and eliminating

redundant control activities. In addition, we are conducting select organizational design reviews focused on reducing the number of operating layers within the organization. During our implementation period, we may experience elevated operational risks, which we are managing.

The company has a governance structure that includes enterprise-wide oversight provided by the Board, CERO and CCO, as well as several management committees. In order to evaluate and monitor operational risk, each business unit completes a quarterly assessment using the Risk and Control Self-Assessment (RCSA) framework. The framework is designed to identify and assess the business unit's exposure to operational risk and determines if additional action is required to manage the risk to an acceptable level.

Table of Contents

In addition to the RCSA process, we employ several tools to identify and measure operational risks, including: (a) loss event data; (b) key risk indicators; (c) root cause analysis; and (d) testing. While our operational risk framework includes tools to support effective management of operational risk, the primary responsibility for managing both the day-to-day risk and longer-term or emerging risks lies with the business units.

Risk Profile

We continue to strengthen operational controls. During 2015, we continued to improve our operational risk framework to focus on high risk activities and reduced our outstanding control issues to relatively low levels. Additionally, we continue to improve our out-of-region disaster recovery capabilities. Our out-of-region data center became operational in 2014, which improved our ability to recover our business systems in the event of a catastrophic regional business event (e.g., a disaster that affects our Northern Virginia production data centers). We continue to face significant levels of operational risks, including those discussed in “RISK FACTORS — Operational Risks” in our 2014 Annual Report.

We face increased operational risk due to the magnitude and complexity of FHFA and other new initiatives we are undertaking, including initiatives we are pursuing under the Conservatorship Scorecard. We continue to make various multi-year investments to build the infrastructure for a future housing finance system, including the development of the common securitization platform and a single security. If these initiatives are not successful, we may not recover our investments.

The threat landscape in cyber security is changing rapidly and growing in sophistication. We may not be able to protect our systems with complete assurance or fully protect the confidentiality of our information from a cyber-attack or other unauthorized access, disclosure, or disruption.

We continue to invest in the information security area to strengthen our capabilities and help us defend against advanced threats. In 2014, we launched a multi-year data protection initiative designed to mitigate this risk.

Management, including the company’s Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2015. As of September 30, 2015, we had one material weakness related to conservatorship, which remained unremediated, causing us to conclude that our disclosure controls and procedures were not effective at a reasonable level of assurance.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations. We fund our cash needs primarily by issuing short-term and long-term debt. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities. However, the costs and availability of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs and any future downgrades in our credit ratings or the credit ratings of the U.S. government.

We make extensive use of the Federal Reserve’s payment system in our business activities. The Federal Reserve requires that we fully fund our accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve’s payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

Our securities and other obligations are not guaranteed by the U.S. government and do not constitute a debt or obligation of the U.S. government or any agency or instrumentality thereof, other than Freddie Mac. We continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement.

Liquidity Management

Maintaining sufficient liquidity is of primary importance to and a cost of our business. To facilitate cash management, we forecast cash outflows and inflows using assumptions and models. These forecasts help us to manage our liabilities with respect to the timing of our cash flows. Differences between actual and forecasted cash flows have resulted in

and may in the future result in higher costs from issuing a higher amount of debt than needed or unexpectedly needing to issue debt. Differences between actual and forecasted cash flows also could result in an overdraw of our accounts at the Federal Reserve Bank of New York. We maintain daily cash reserves to manage this risk.

During the nine months ended September 30, 2015, the majority of the funds in our liquidity and contingency operating portfolio was deposited with the Federal Reserve Bank of New York, invested in U.S. Treasury securities, or invested in securities purchased under agreements to resell. In the event of a downgrade of a position or counterparty, as applicable, below minimum rating requirements, we make an assessment whether to exit the existing position or continue to do business with the counterparty.

Our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to

Table of Contents

changes in market interest rates, market confidence, operational risks, and other factors. For more information, see “RISK FACTORS — Competitive and Market Risks — Our activities may be adversely affected by limited availability of financing and increased funding costs” in our 2014 Annual Report.

Other Debt Securities

During the nine months ended September 30, 2015, we had sufficient access to the debt markets due largely to support from the U.S. government. Our effective short-term debt was 40% and 43% of outstanding other debt at September 30, 2015 and December 31, 2014, respectively. Effective short-term debt is the aggregate of short-term debt and the current portion of long-term debt (the portion due within one year). The categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt. We rely significantly on our ability to issue debt on an on-going basis to refinance our effective short-term debt.

Our debt cap under the Purchase Agreement is \$563.6 billion in 2015 and will decline to \$479.0 billion on January 1, 2016. As of September 30, 2015, our aggregate indebtedness was \$411.8 billion. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our indebtedness on this basis monthly under the caption “Other Debt Activities — Total Debt Outstanding” in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com.

Other Debt Activities

The table below summarizes the par value of other debt securities we issued or paid off, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases, during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014. Our short-term debt issuances include Reference Bills[®] securities and other discount notes, and our long-term debt issuances include medium-term notes, Reference Notes[®] securities and STACR debt notes. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including: (a) for economic reasons; (b) to manage the composition of liabilities funding our assets; or (c) to help support the liquidity of our other debt securities. Issuances and pay-offs of short-term debt increased during the nine months ended September 30, 2015 as we began utilizing overnight discount notes as a more cost efficient tool to manage our intra-day liquidity needs. In addition, issuances and pay-offs of long-term debt increased during the nine months ended September 30, 2015 as we issued more long-term callable debt to replace debt that was called for economic reasons.

Table 44 — Activity in Other Debt

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
	(dollars in millions)				
Beginning balance	\$417,461	\$449,232	\$454,029	\$511,345	
Issued during the period:					
Short-term:					
Amount	\$136,034	\$46,738	\$315,591	\$140,914	
Weighted-average effective interest rate	0.11	% 0.12	% 0.09	% 0.11	%
Long-term:					
Amount	\$29,360	\$22,730	\$119,063	\$62,024	
Weighted-average effective interest rate	1.58	% 1.27	% 1.41	% 1.21	%
Total issued:					
Amount	\$165,394	\$69,468	\$434,654	\$202,938	
Weighted-average effective interest rate	0.37	% 0.49	% 0.45	% 0.44	%
Paid off during the period: ⁽¹⁾					
Short-term:					
Amount	\$(116,854)	\$(45,208)	\$(337,932)	\$(170,824))
Weighted-average effective interest rate	0.07	% 0.11	% 0.07	% 0.12	%
Long-term:					

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Amount	\$ (54,196)	\$ (33,958)	\$ (138,946)	\$ (103,925)
Weighted-average effective interest rate	1.48	%	1.83	%	1.43	%	1.73	%
Total paid off:								
Amount	\$ (171,050	)	\$ (79,166	)	\$ (476,878	)	\$ (274,749)
Weighted-average effective interest rate	0.52	%	0.85	%	0.47	%	0.73	%
Ending balance	\$411,805		\$439,534		\$411,805		\$439,534	

(1) Calls and repurchases of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Credit Ratings

Table of Contents

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. The table below indicates our credit ratings as of October 21, 2015.

Table 45 — Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody's	Fitch
Senior long-term debt	AA+	Aaa	AAA
Short-term debt	A-1+	P-1	F1+
Freddie SUBS subordinated debt	AA-	Aa2	AA-
Preferred stock ⁽¹⁾	D	Ca	C/RR6
Outlook	Stable	Stable	Stable

(1) Does not include senior preferred stock issued to Treasury.

Our credit ratings and outlooks are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings and outlooks of the U.S. government.

For information about factors that could lead to future ratings actions, and the potential impact of a downgrade in our credit ratings, see “RISK FACTORS — Competitive and Market Risks — Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business” in our 2014 Annual Report.

A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Cash and Cash Equivalents, Federal Funds Sold, Securities Purchased Under Agreements to Resell, and Non-Mortgage-Related Securities

Excluding amounts related to our consolidated VIEs, we held \$44.1 billion and \$56.0 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at September 30, 2015 and December 31, 2014, respectively. These investments are important to our cash flow, collateral management and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. At September 30, 2015, our non-mortgage-related securities consisted of U.S. Treasury securities, although we can hold other securities, that we could sell or pledge to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets. For additional information on these assets, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell” and “— Investments in Securities — Non-Mortgage-Related Securities.”

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities). In addition, we hold unsecuritized single-family mortgage loans and multifamily held-for-sale mortgage loans that could be securitized and would then be available for sale or use as collateral for repurchase agreements.

Due to the large size of our portfolio of liquid assets, the amount of mortgage-related assets that we may successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. There would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to sell or borrow against these assets. We hold other mortgage assets, but given their characteristics, they may not be available for immediate sale or able to be used as collateral for repurchase agreements. These assets consist of certain structured agency securities collateralized by non-agency mortgage-related securities, CMBS, non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans, and unsecuritized seriously delinquent and modified single-family

mortgage loans.

We are subject to limits on the amount of mortgage assets we can sell in any calendar month without review and approval by FHFA and, if FHFA so determines, Treasury. See “EXECUTIVE SUMMARY — Limits on Our Mortgage-Related Investments Portfolio” for more information on the relative liquidity of our mortgage assets.

Cash Flows

Our cash and cash equivalents decreased \$5.9 billion to \$5.0 billion during the nine months ended September 30, 2015, compared to an increase of \$4.9 billion to \$16.2 billion during the nine months ended September 30, 2014. Cash flows used in operating activities during the nine months ended September 30, 2015 were \$5.4 billion, primarily driven by increased net purchases of held-for-sale mortgage loans. Cash flows provided by operating activities during the nine months ended

Table of Contents

September 30, 2014 were \$11.3 billion, primarily driven by cash proceeds from net interest income and non-agency mortgage-related securities settlements. Cash flows provided by investing activities, primarily comprised of net proceeds received as a result of repayments of single-family held-for-investment mortgage loans, were \$163.6 billion and \$182.4 billion, during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. Cash flows used for financing activities, primarily driven by funds used to repay or redeem debt securities of consolidated trusts held by third parties and other debt, were \$164.1 billion and \$188.8 billion, during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we have received from Treasury, has enabled us to access debt funding on terms sufficient for our needs. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. The amount of available funding remaining under the Purchase Agreement is currently \$140.5 billion. This amount will be reduced by any future draws.

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA.

At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. In future periods, we may experience variability in our net income and/or comprehensive income due to changes in factors such as interest rates, implied volatility, home prices, and mortgage spreads. Such changes could adversely affect our net worth and result in additional draws under the Purchase Agreement. For more information, see “RISK FACTORS — Conservatorship and Related Matters — We may request additional draws under the Purchase Agreement in future periods” in our 2014 Annual Report.

Because our Net Worth Amount at September 30, 2015 was below the 2015 Capital Reserve Amount of \$1.8 billion (which will be reduced by \$600 million each year thereafter until it reaches zero on January 1, 2018), we will not have a dividend obligation to Treasury in December 2015. We paid dividends of \$5.5 billion in cash on the senior preferred stock during the nine months ended September 30, 2015. Through September 30, 2015, we have paid aggregate cash dividends to Treasury of \$96.5 billion, an amount that is \$25.1 billion more than our aggregate draws received under the Purchase Agreement. As a result of the net worth sweep dividend we pay to Treasury, we cannot retain capital from the earnings generated by our business operations.

At September 30, 2015, our aggregate funding received from Treasury under the Purchase Agreement was \$71.3 billion. This aggregate funding amount does not include the initial \$1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. In addition, under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference. Accordingly, while we have paid aggregate cash dividends to Treasury of \$96.5 billion, the liquidation preference on the senior preferred stock remains \$72.3 billion.

FAIR VALUE HIERARCHY AND VALUATIONS

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy under the accounting guidance for fair value measurements and disclosures are described in “NOTE 16: FAIR VALUE DISCLOSURES — Fair Value Measurements.” Level 3 Recurring Fair Value Measurements

The process for determining fair value using unobservable inputs (Level 3) is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. At September 30, 2015 and December 31, 2014, we measured and recorded 21% and 28%, respectively, of total assets

carried at fair value on our consolidated balance sheets on a recurring basis using unobservable inputs. At both September 30, 2015 and December 31, 2014, we measured and recorded less than 1% of total liabilities carried at fair value on our consolidated balance sheets on a recurring basis using unobservable inputs. These percentages were calculated before the impact of counterparty and cash collateral netting. See “NOTE 16: FAIR VALUE DISCLOSURES — Changes in Fair Value Levels” for a discussion of changes in our Level 3 assets and liabilities and “Table 16.2 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs” for the Level 3 reconciliation.
Consideration of Credit Risk in Our Valuation

Table of Contents

We consider credit risk in the valuation of our assets and liabilities through consideration of credit risk of the counterparty in asset valuations and through consideration of our own institutional credit risk in liability valuations on our GAAP consolidated balance sheets.

See “NOTE 16: FAIR VALUE DISCLOSURES — Valuation Techniques for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value” and “ — Valuation Processes and Controls Over Fair Value Measurements” in this Form 10-Q and our 2014 Annual Report for additional information regarding the valuation of our assets and liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or that may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. See “NOTE 14: FINANCIAL GUARANTEES” for more information on our off-balance sheet securitization activities and other guarantee commitments.

We guarantee the payment of principal and interest on non-consolidated Freddie Mac guaranteed mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Our maximum potential off-balance sheet exposure to credit losses relating to these guarantees is primarily represented by the UPB of the underlying loans and securities, which was \$115.1 billion and \$113.7 billion at September 30, 2015 and December 31, 2014, respectively. We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans. As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” which were \$9.1 billion and \$9.6 billion at September 30, 2015 and December 31, 2014, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. In addition, as part of the HFA initiative, we, together with Fannie Mae, provide liquidity guarantees for certain multifamily housing revenue bonds, under which Freddie Mac generally is obligated to purchase 50% of any tendered bonds that cannot be remarketed within five business days. At both September 30, 2015 and December 31, 2014, there were no liquidity guarantee advances outstanding.

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs’ assets and liabilities. See “NOTE 3: VARIABLE INTEREST ENTITIES” for more information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates, and assumptions that affect the reported amounts within our consolidated financial statements. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and require management to make difficult, complex, or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) the single-family allowance for loan losses; (b) fair value measurements; and (c) impairment recognition on investments in securities. In the first quarter of 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures, including guidelines for recognizing charge-offs on certain single-family loans. Consequently, as of January 1, 2015, we changed when we deem a loan to be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for mortgage loans that have been deemed uncollectible prior to foreclosure. For additional information about our significant accounting policies, as well as recently issued accounting guidance, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in this Form 10-Q and our 2014 Annual

Report.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for our single-family, multifamily, and investment businesses, our loan workout initiatives and other efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some

Table of Contents

of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “possible,” “trend,” “forecast,” “anticipate,” “believe,” “intend,” “could,” “future,” “may,” “will” phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the “RISK FACTORS” section of our 2014 Annual Report, and:

the actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to further support the housing recovery or to implement FHFA’s 2015 Conservatorship Scorecard and other objectives for us and Fannie Mae;

the effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend obligation on the senior preferred stock;

our ability to maintain adequate liquidity to fund our operations;

changes in our charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);

changes in the fiscal and monetary policies of the Federal Reserve, including any changes to its policy of maintaining sizable holdings of mortgage-related securities and any future sales of such securities;

the success of our efforts to mitigate our losses on our Legacy single-family books and our investments in non-agency mortgage-related securities;

the success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate and other credit risk transfer transactions;

our ability to maintain the security of our operating systems and infrastructure (e.g., against cyber attacks);

changes in economic and market conditions, including changes in employment rates, interest rates, mortgage and debt spreads, and home prices;

changes in the U.S. residential mortgage market, including changes in the supply and type of mortgage products (e.g., refinance versus purchase, and fixed-rate versus ARM);

our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;

the adequacy of our risk management framework;

our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;

our ability to manage interest-rate and other market risks, including the availability of derivative financial instruments needed for risk management purposes;

changes or errors in the methodologies, models, assumptions and estimates we use to prepare our financial statements, make business decisions, and manage risks;

changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);

changes in the practices of loan originators, investors and other participants in the secondary mortgage market; and

• other factors and assumptions described in this Form 10-Q, our Forms 10-Q for the quarters ended March 31, 2015 and June 30, 2015 and our 2014 Annual Report, including in the “MD&A” sections.

Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statements we make to reflect events or circumstances occurring after the date of this Form 10-Q.

LEGISLATIVE AND REGULATORY MATTERS

Legislation Related to Freddie Mac and its Future Status

Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term.

On September 15, 2015, the Senate passed a bill that would limit the compensation and benefits of the CEOs of Freddie Mac and Fannie Mae during conservatorship or receivership to the level in effect as of January 1, 2015.

We anticipate that other bills related to Freddie Mac, Fannie Mae and the future of the mortgage finance system will be introduced. We cannot predict whether any of such bills will be enacted.

For more information, see “BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — Legislation Related to Freddie Mac and its Future Status” and “RISK FACTORS — Conservatorship and Related Matters —

The future status and role of Freddie Mac are uncertain” in our 2014 Annual Report, as well as “MD&A — LEGISLATIVE AND REGULATORY MATTERS — Legislation Related to Freddie Mac and its Future Status” in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015.

Table of Contents

Affordable Housing Goals and Results for 2014

In October 2015, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2014, and preliminarily determined that we achieved three of our five single-family affordable housing goals and both of our multifamily goals. Our performance on the goals, as preliminarily determined by FHFA, is set forth below. Table 46 — Affordable Housing Goals and Results for 2014

	Goals for 2014	Market level for 2014 ⁽¹⁾	Results for 2014	
Single-family purchase money goals (benchmark levels):				
Low-income	23	% 22.8	% 21.0	%
Very low-income	7	% 5.7	% 4.9	%
Low-income areas ⁽²⁾	18	% 22.1	% 20.1	%
Low-income areas sub-goal	11	% 15.0	% 13.6	%
Single-family refinance low-income goal (benchmark level)	20	% 25.0	% 26.4	%
Multifamily low-income goal (in units)	200,000	N/A	273,434	
Multifamily very low-income subgoal (in units)	40,000	N/A	48,689	

(1) Determined by FHFA based on its analysis of market data for 2014.

FHFA annually sets the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgage loans for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available.

Affordable Housing Goals for 2015 to 2017

On August 19, 2015, FHFA issued the final rule establishing affordable housing goals for Freddie Mac and Fannie Mae for 2015 through 2017. The rule will apply retroactively to the beginning of 2015. Under FHFA's final rule: (a) the benchmark levels for four of our single-family goals increased; (b) both of our multifamily goals increased; and (c) FHFA established a new subgoal related to small (5- to 50-unit) multifamily properties affordable to low-income families. Achieving all of the 2015 goals will be challenging.

Table 47 — Affordable Housing Goals for 2015 to 2017

	Goals For 2015	2016	2017	
Single-family purchase money goals (benchmark levels):				
Low-income	24	% 24	% 24	%
Very low-income	6	% 6	% 6	%
Low-income areas ⁽¹⁾	19	% TBD	TBD	
Low-income areas subgoal	14	% 14	% 14	%
Single-family refinance low-income goal (benchmark level)	21	% 21	% 21	%
Multifamily low-income goal (in units)	300,000	300,000	300,000	
Multifamily very low-income subgoal (in units)	60,000	60,000	60,000	
Multifamily small property low-income subgoal (in units)	6,000	8,000	10,000	

FHFA will annually set the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgage loans for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks" in our 2014 Annual Report for a discussion of our market risk exposures, including those related to derivatives, and other market risks, as well as our PMVS and duration gap risk measures.

Interest-Rate Risk and Other Market Risks

Our mortgage-related investments portfolio (i.e., mortgage loans and mortgage-related securities), non-mortgage investments, and unsecured debt expose us to interest-rate risk and other market risks, including spread risk, and prepayment risk from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and unexpected prepayments or differences in expected cash flows due to default of the underlying borrower or modification of loan terms by the servicer. For a majority of our mortgage-related investments, the mortgage loan borrower has the option to make unscheduled payments of additional principal or to completely pay off a mortgage loan at any time before its scheduled

Table of Contents

maturity date (without having to pay a prepayment penalty) or make principal payments in accordance with the contractual obligation.

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap.

PMVS is an estimate of the change in the market value of our financial assets and liabilities from an instantaneous shock to interest rates, assuming no rebalancing actions are undertaken and assuming the mortgage-to-LIBOR basis does not change. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-Level or PMVS-L) and the other to a nonparallel movement (PMVS-YC) resulting from a 25 basis point change in slope of the LIBOR yield curve.

The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity. These PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically expect to take to reduce our risk exposure.

Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions. While we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. There could be times when we hedge differently than our model estimates during the period (i.e., when we are making changes or market updates to these models). While PMVS and duration gap estimate our exposure to changes in interest rates, they do not capture the potential effect of certain other market risks, such as changes in volatility and spread risk. The effect of these other market risks can be significant.

Duration Gap and PMVS Results

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear.

Our PMVS-L (50 basis points) exposure at September 30, 2015 was \$84 million, which decreased compared to December 31, 2014 primarily due to a change in our duration exposure. On an average basis during the three and nine months ended September 30, 2015, our PMVS-L (50 basis points) was \$72 million and \$97 million, respectively, primarily resulting from our duration exposure.

Table of Contents

Table 48 — PMVS and Duration Gap Results

			PMVS-YC 25 bps (in millions)	PMVS-L 50 bps	100 bps	
Assuming shifts of the LIBOR yield curve:						
September 30, 2015			\$19	\$84	\$295	
December 31, 2014			\$—	\$102	\$396	
Three Months Ended September 30, 2015						
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	2014 Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	0.1	\$9	\$72	—	\$18	\$35
Minimum	(0.4)	\$—	\$26	(0.4)	\$3	\$—
Maximum	0.8	\$23	\$173	0.6	\$36	\$112
Standard deviation	0.3	\$6	\$29	0.2	\$7	\$28
Nine Months Ended September 30, 2015						
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	2014 Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	0.2	\$20	\$97	(0.1)	\$17	\$57
Minimum	(0.4)	\$—	\$23	(2.4)	\$—	\$—
Maximum	1.0	\$47	\$250	0.7	\$65	\$509
Standard deviation	0.3	\$12	\$43	0.5	\$14	\$85

Derivatives have historically enabled us to reduce our interest-rate risk exposure, which could have been higher without the use of derivatives. The table below shows that the PMVS-L risk levels for the periods presented would have been higher if we had not used derivatives. The derivative impact on our PMVS-L (50 basis points) was \$(3.7) billion at September 30, 2015, an increase of \$610 million from December 31, 2014.

Table 49 — Derivative Impact on PMVS-L (50 bps)

	Before Derivatives (in millions)	After Derivatives	Effect of Derivatives
At:			
September 30, 2015	\$3,818	\$84	\$(3,734)
December 31, 2014	\$3,226	\$102	\$(3,124)

The disclosure in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

ITEM 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management of the company, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how

well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures.

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2015. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2015, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is

Table of Contents

communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. We consider this situation to be a material weakness in our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting During the Quarter Ended September 30, 2015

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 and concluded that the matters discussed below have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In July 2015, Anil Hinduja joined Freddie Mac as our Executive Vice President and Chief Enterprise Risk Officer, replacing Mark A. DeLong, Senior Vice President - Enterprise Operational Risk Management, and Jorge A. Reis, Senior Vice President - Enterprise Chief Risk Officer for the Investments & Capital Markets business, who served as interim co-chief enterprise risk officers; and

We continue to make considerable enhancements to our risk management framework. In 2014, we began implementation of a redesigned and enhanced three-lines-of-defense methodology. As part of this effort, during 2015 we moved several key functions within the organization. During our implementation period, we may experience elevated operational risks, which we are managing. For more information, see "MD&A — RISK MANAGEMENT — Operational Risk — Risk Management Framework."

Mitigating Actions Related to the Material Weakness in Internal Control Over Financial Reporting

As described above under "Evaluation of Disclosure Controls and Procedures," we have one material weakness in internal control over financial reporting as of September 30, 2015 that we have not remediated.

Based on discussions with FHFA and given the structural nature of this material weakness, we believe it is likely that we will not remediate it while we are under conservatorship. However, both we and FHFA have continued to engage in activities and employ procedures and practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws. These include the following:

FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the Conservator.

We provide drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also provide drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.

FHFA personnel, including senior officials, review our SEC filings prior to filing, including this Form 10-Q, and engage in discussions with us regarding issues associated with the information contained in those filings. Prior to filing this Form 10-Q, FHFA provided us with a written acknowledgment that it had reviewed the Form 10-Q, was not aware of any material misstatements or omissions in the Form 10-Q, and had no objection to our filing the Form 10-Q.

The Director of FHFA is in frequent communication with our Chief Executive Officer, typically meeting (in person or by phone) on at least a bi-weekly basis.

FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and capital markets management, external communications, and legal matters.

Senior officials within FHFA's accounting group meet frequently with our senior financial executives regarding our accounting policies, practices, and procedures.

In view of our mitigating actions related to this material weakness, we believe that our consolidated financial statements for the three months ended September 30, 2015 have been prepared in conformity with GAAP.

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

76

Freddie Mac Form 10-Q

Table of Contents

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(in millions, except share-related amounts)			
Interest income				
Mortgage loans:				
Held by consolidated trusts	\$ 14,032	\$ 14,148	\$ 41,641	\$ 42,881
Unsecuritized	1,563	1,643	4,792	4,965
Total mortgage loans	15,595	15,791	46,433	47,846
Investments in securities	1,145	1,423	3,736	4,457
Other	19	8	45	19
Total interest income	16,759	17,222	50,214	52,322
Interest expense				
Debt securities of consolidated trusts	(11,364	) (11,802	) (33,856	) (36,150
Other debt:				
Short-term debt	(40	) (35	) (114	) (110
Long-term debt	(1,559	) (1,647	) (4,709	) (5,156
Total interest expense	(12,963	) (13,484	) (38,679	) (41,416
Expense related to derivatives	(53	) (75	) (176	) (230
Net interest income	3,743	3,663	11,359	10,676
Benefit (provision) for credit losses	528	(574	) 1,884	(41
Net interest income after benefit (provision) for credit losses	4,271	3,089	13,243	10,635
Non-interest income (loss)				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(5	) (132	) (139	) (308
Gains (losses) on retirement of other debt	9	(8	) (16) —
Derivative gains (losses)	(4,172	) (617	) (3,440	) (4,894
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(38	) (132	) (204	) (641
Portion of other-than-temporary impairment recognized in AOCI	(16	) (34	) (41	) (46
Net impairment of available-for-sale securities recognized in earnings	(54	) (166	) (245	) (687
Other gains (losses) on investment securities recognized in earnings	256	(109	) 825	1,029
Other income (loss)	125	1,796	(432	) 7,329
Non-interest income (loss)	(3,841	) 764	(3,447	) 2,469
Non-interest expense				
Salaries and employee benefits	(231	) (231	) (742	) (687
Professional services	(130	) (128	) (361	) (392
Occupancy expense	(14	) (16	) (40	) (43
Other administrative expense	(90	) (97	) (274	) (271
Total administrative expense	(465) (472) (1,417) (1,393
Real estate owned operations expense	(116) (103) (243) (112

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Temporary Payroll Tax Cut Continuation Act of 2011 expense	(248) (198) (705) (563)
Other expense	(270	) (43	) (1,234	) (199)
Non-interest expense	(1,099	) (816	) (3,599	) (2,267)
Income (loss) before income tax benefit (expense)	(669	) 3,037	6,197	10,837	
Income tax benefit (expense)	194	(956	) (1,979	) (3,374)
Net income (loss)	(475	) 2,081	4,218	7,463	
Other comprehensive income (loss), net of taxes and reclassification adjustments:					
Changes in unrealized gains (losses) related to available-for-sale securities	(61	) 656	(218	) 1,562	
Changes in unrealized gains (losses) related to cash flow hedge relationships	35	50	132	151	
Changes in defined benefit plans	—	(1	) 26	(1)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(26	) 705	(60	) 1,712	
Comprehensive income (loss)	\$(501	) \$2,786	\$4,158	\$9,175	
Net income (loss)	\$(475	) \$2,081	\$4,218	\$7,463	
Undistributed net worth sweep and senior preferred stock dividends	—	(2,786	) (4,659	) (9,175)
Net income (loss) attributable to common stockholders	\$(475	) \$(705	) \$(441	) \$(1,712)
Net income (loss) per common share — basic and diluted	\$(0.15	) \$(0.22	) \$(0.14	) \$(0.53)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,236	3,235	3,236	

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

FREDDIE MAC
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2015	December 31, 2014
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes \$0 and \$2, respectively, related to our consolidated VIEs)	\$5,000	\$10,928
Restricted cash and cash equivalents (includes \$15,104 and \$8,532, respectively, related to our consolidated VIEs)	15,108	8,535
Federal funds sold and securities purchased under agreements to resell (includes \$11,815 and \$13,500, respectively, related to our consolidated VIEs)	38,738	51,903
Investments in securities:		
Available-for-sale, at fair value (includes \$0 and \$9, respectively, pledged as collateral that may be repledged)	81,573	106,550
Trading, at fair value (includes \$2,455 and \$1,884, respectively, pledged as collateral that may be repledged)	35,806	30,437
Total investments in securities	117,379	136,987
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of \$3,051 and \$2,884, respectively)	1,615,291	1,558,094
Unsecuritized (net of allowances for loan losses of \$13,368 and \$18,877, respectively)	106,723	130,118
Total held-for-investment mortgage loans, net	1,722,014	1,688,212
Held-for-sale, at lower-of-cost-or-fair-value (includes \$20,880 and \$12,130 at fair value, respectively)	27,853	12,368
Total mortgage loans, net	1,749,867	1,700,580
Accrued interest receivable (includes \$5,242 and \$5,124, respectively, related to our consolidated VIEs)	6,052	6,034
Derivative assets, net	605	822
Real estate owned, net (includes \$34 and \$44, respectively, related to our consolidated VIEs)	1,795	2,558
Deferred tax assets, net	17,817	19,498
Other assets (Note 19) (includes \$2,810 and \$2,596, respectively, related to our consolidated VIEs)	9,786	7,694
Total assets	\$1,962,147	\$1,945,539
Liabilities and equity		
Liabilities		
Accrued interest payable (includes \$4,743 and \$4,702, respectively, related to our consolidated VIEs)	\$6,135	\$6,325
Debt, net:		
Debt securities of consolidated trusts held by third parties (includes \$131 and \$42 at fair value, respectively)	1,539,108	1,479,473
Other debt (includes \$7,379 and \$5,820 at fair value, respectively)	408,281	450,069
Total debt, net	1,947,389	1,929,542
Derivative liabilities, net	1,670	1,963

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Other liabilities (Note 19) (includes \$15 and \$1, respectively, related to our consolidated VIEs)	5,654	5,058
Total liabilities	1,960,848	1,942,888
Commitments and contingencies (Notes 9, 14, and 17)		
Equity		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, \$0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,045,962 shares and 650,043,899 shares outstanding, respectively	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(82,931	) (81,639
AOCI, net of taxes, related to:		
Available-for-sale securities (includes \$813 and \$839, respectively, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	2,328	2,546
Cash flow hedge relationships	(671	) (803
Defined benefit plans	13	(13
Total AOCI, net of taxes	1,670	1,730
Treasury stock, at cost, 75,817,924 shares and 75,819,987 shares, respectively	(3,885	) (3,885
Total equity (See NOTE 11: STOCKHOLDERS' EQUITY for information on our dividend obligation to Treasury)	1,299	2,651
Total liabilities and equity	\$1,962,147	\$1,945,539

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

FREDDIE MAC
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
	(in millions)	
Net cash (used in) provided by operating activities	\$(5,443	) \$11,314
Cash flows from investing activities:		
Purchases of trading securities	(33,987	) (33,076)
Proceeds from sales of trading securities	12,851	13,674
Proceeds from maturities of trading securities	15,585	13,490
Purchases of available-for-sale securities	(5,025	) (22,080)
Proceeds from sales of available-for-sale securities	16,364	26,608
Proceeds from maturities of available-for-sale securities	16,099	15,742
Purchases of held-for-investment mortgage loans	(92,535	) (51,583)
Proceeds from sales of mortgage loans held-for-investment	1,647	454
Repayments of mortgage loans held-for-investment	233,586	175,728
(Increase) decrease in restricted cash	(6,573	) 6,001
Net proceeds from dispositions of real estate owned and other recoveries	2,990	6,357
Net decrease in federal funds sold and securities purchased under agreements to resell	13,165	32,427
Derivative premiums and terminations and swap collateral, net	(1,888	) (1,262)
Changes in other assets	(8,634	) (67)
Net cash provided by investing activities	163,645	182,413
Cash flows from financing activities:		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	129,086	93,823
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(245,624	) (194,483)
Proceeds from issuance of other debt	437,415	342,957
Repayments of other debt	(479,494	) (414,285)
Payment of cash dividends on senior preferred stock	(5,510	) (16,824)
Changes in other liabilities	(3	) (5)
Net cash used in financing activities	(164,130	) (188,817)
Net (decrease) in cash and cash equivalents	(5,928	) 4,910
Cash and cash equivalents at beginning of period	10,928	11,281
Cash and cash equivalents at end of period	\$5,000	\$16,191
Supplemental cash flow information		
Cash paid (received) for:		
Debt interest	\$45,839	\$46,697
Income taxes	910	760
Non-cash investing and financing activities (Notes 4, 6 and 7)		

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD, the CFPB and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2014, or our 2014 Annual Report. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in our 2014 Annual Report.

We perform our mission by participating in the secondary mortgage market. Our participation in the secondary mortgage market includes providing our credit guarantee for mortgage loans originated by mortgage lenders in the primary mortgage market and investing in mortgage loans and mortgage-related securities. We do not participate directly in the primary mortgage market.

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. See “NOTE 13: SEGMENT REPORTING” in our 2014 Annual Report for additional information.

Our primary business objectives are:

- to support U.S. homeownership and renting families by maintaining mortgage availability even when other sources of financing are scarce and providing struggling homeowners with alternatives that allow them to stay in their homes or to avoid foreclosure;
- to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile;
- to build a commercially strong and efficient business enterprise to succeed in a to-be-determined “future state;” and
- to support and improve the secondary mortgage market.

For information regarding our objectives, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Business Objectives” in our 2014 Annual Report.

Throughout our condensed consolidated financial statements and accompanying notes, we use certain acronyms and terms which are defined in the “GLOSSARY.”

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to the Board of Directors and management. Certain financial statement information that is normally included in annual financial statements prepared in conformity with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. Certain amounts in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair presentation of our unaudited condensed consolidated financial statements.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements for establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, and assessing impairments on investments. Actual results could be different from these estimates.

Change in Estimate

Adoption of Regulatory Guidance on Determining when a Loan is Uncollectible

On January 1, 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures, including guidelines for recognizing charge-offs on certain single-family loans. We analyze loans for collectability based on several factors, including, but not limited to: (a) servicing actions that indicate the potential for near-term loss mitigation, such as whether we have achieved quality borrower contact; (b) credit risk factors, such as whether the loan is in a state with foreclosure practices that prevent timely resolution of delinquencies; and (c) loan characteristics that indicate whether repayment is likely to occur,

Table of Contents

such as the borrower's payment history, loan status, and historical performance of loans with similar characteristics. Upon adoption of the FHFA regulatory guidance on January 1, 2015, we changed the timing of when we deem certain single-family loans to be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for mortgage loans that have been deemed uncollectible prior to foreclosure, based on the factors identified above.

This adoption resulted in a reduction to both the recorded investment of mortgage loans, held-for-investment, and our allowance for loan losses of \$1.9 billion on January 1, 2015. However, these additional charge-offs did not have a material impact on our comprehensive income during the nine months ended September 30, 2015, as we had already measured impairment for these loans based on collateral value in prior periods.

Earnings Per Common Share

The August 2012 amendment to the Purchase Agreement changed the manner in which the dividend on the senior preferred stock is determined. For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. See "NOTE 11: STOCKHOLDERS' EQUITY — Senior Preferred Stock" for additional information regarding the Capital Reserve Amount. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The dividend is presented in the period in which it is determinable for the senior preferred stock as a reduction to net income (loss) available to common stockholders and net income (loss) per common share. The dividend is declared and paid in the following period and recorded as a reduction to equity in the period declared.

Because we have issued participating securities, we use the "two-class" method of computing earnings per common share. Basic earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement. These shares are included since the warrant is unconditionally exercisable by the holder at a minimal cost.

Diluted earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding during the period adjusted for the dilutive effect of common equivalent shares outstanding. For periods with net income attributable to common stockholders, the calculation includes the effect of the weighted average shares related to stock options if the average market price during the period exceeds the exercise price. During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share" in our 2014 Annual Report for further discussion of our significant accounting policies regarding our calculation of earnings per common share and "NOTE 11: STOCKHOLDERS' EQUITY — Stock-Based Compensation" for additional information on our earnings-per-share calculation.

Recent Accounting Guidance

The following table provides a brief description of recent accounting pronouncements that could affect our financial statements.

Table of Contents

Standard	Description	Date of Adoption	Effect on the Financial Statements
Recently Adopted Accounting Guidance			
ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310)	The amendment clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (Topic 860)	The amendment requires repurchase-to-maturity transactions to be accounted for as secured borrowings and requires separate accounting for a transfer of a financial asset completed contemporaneously with a repurchase agreement with the same counterparty.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.
ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (Topic 310)	The amendment requires that a mortgage loan be de-recognized and a separate receivable be recognized upon foreclosure if certain conditions are met. If those conditions are met and such a receivable is recognized, the receivable should be measured based on the amount of principal and interest related to the loan expected to be recovered from the guarantor.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.
Recently Issued Accounting Guidance, Not Yet Adopted Within our Consolidated Financial Statements			
ASU 2015-14, Revenue from Contracts with Customers (Topic 606)	The amendment defers the effective date of ASU 2014-09 for all entities by one year.	January 1, 2018	We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements.
ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30)	The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.	January 1, 2016	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.

ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810)	The amendment affects reporting entities that are required to evaluate whether they should consolidate certain legal entities.	January 1, 2016	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
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NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

Business Objectives

We operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters continue to have wide-ranging effects on us, including on our management, business activities, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. The Conservator delegated certain authority to the Board of Directors to oversee, and management to conduct, business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent.

Impact of Conservatorship and Related Developments on the Mortgage-Related Investments Portfolio

For purposes of the limit imposed by the Purchase Agreement, the UPB of our mortgage-related investments portfolio may not exceed \$399.2 billion at December 31, 2015 and was \$367.1 billion at September 30, 2015. Our 2014 Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap, or \$359.3 billion, established by the Purchase Agreement (subject to certain exceptions). The annual 15% reduction in our mortgage-related investments portfolio cap will continue until it reaches \$250 billion and is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

Table of Contents**Government Support for our Business**

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. At June 30, 2015, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended September 30, 2015. Since conservatorship began through September 30, 2015, we have paid cash dividends of \$96.5 billion to Treasury at the direction of the Conservator.

As a result of the net worth sweep dividend provisions of the senior preferred stock, we cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury, the holder of our senior preferred stock. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near term. We have no ability to predict the outcome of these deliberations.

See “NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS” and “NOTE 11: STOCKHOLDERS’ EQUITY” in our 2014 Annual Report for more information on the conservatorship and the Purchase Agreement.

NOTE 3: VARIABLE INTEREST ENTITIES

We have interests in various entities that are considered to be VIEs, including securitization trusts we use in our securities issuance process. We are required to evaluate VIEs at inception and on an ongoing basis. When we determine that we are the primary beneficiary of a VIE, we consolidate the assets and liabilities of the trust on our balance sheets. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Consolidation and Equity Method of Accounting” in our 2014 Annual Report for more information about VIEs.

VIEs for which We are the Primary Beneficiary

At September 30, 2015 and December 31, 2014, we were the primary beneficiary of, and therefore consolidated, single-family trusts with assets totaling \$1.6 trillion and \$1.5 trillion, respectively, as measured using the UPB of issued PCs. In addition, we concluded that we are the primary beneficiary of certain Other Guarantee Transactions, with underlying assets totaling \$8.1 billion and \$7.4 billion at September 30, 2015 and December 31, 2014, respectively, and consolidated them on our balance sheets.

VIEs for which We are not the Primary Beneficiary

The table below presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in non-consolidated VIEs in which we have significant continuing involvement, as well as our maximum exposure to loss as a result of our involvement with these VIEs.

Table of Contents

Table 3.1 — Variable Interests in VIEs for which We are not the Primary Beneficiary

	September 30, 2015	
	Freddie Mac Securities ⁽¹⁾	Other
	(in millions)	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Restricted cash and cash equivalents	\$—	\$3
Investments in securities:		
Available-for-sale, at fair value	35,577	—
Trading, at fair value	16,324	—
Accrued interest receivable	218	8
Other assets	1,117	527
Liabilities:		
Derivative liabilities, net	—	(28)
Other liabilities	(1,112)	(565)
Maximum Exposure to Loss ⁽²⁾	\$102,527	\$10,613
Total Assets of Non-Consolidated VIEs ⁽³⁾	\$121,143	\$23,070
	December 31, 2014	
	Freddie Mac Securities ⁽¹⁾	Other
	(in millions)	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Restricted cash and cash equivalents	\$—	\$3
Investments in securities:		
Available-for-sale, at fair value	39,099	—
Trading, at fair value	17,469	—
Accrued interest receivable	236	7
Other assets	914	495
Liabilities:		
Derivative liabilities, net	—	(30)
Other liabilities	(1,005)	(560)
Maximum Exposure to Loss ⁽²⁾	\$87,529	\$10,419
Total Assets of Non-Consolidated VIEs ⁽³⁾	\$103,253	\$22,855

Freddie Mac securities include our variable interests in single-family multiclass REMICs and Other Structured Securities, multifamily Other Structured Securities, and Other Guarantee Transactions that we do not consolidate.

(1) Our maximum exposure to loss includes guaranteed UPB of assets held by the non-consolidated VIEs related to multifamily Other Structured Securities and Other Guarantee Transactions. Our maximum exposure to loss on Freddie Mac securities excludes investments in single-family multiclass REMICs and Other Structured Securities, because we already consolidate the collateral of these trusts on our consolidated balance sheets.

(2) For Freddie Mac securities, this represents the UPB of the securities. For other VIEs, this represents either the carrying amount or amortized cost recorded on our consolidated balance sheets.

(3) Represents the UPB of assets held by non-consolidated VIEs using the most current information available to us. We also have interests in VIEs through our investments in non-Freddie Mac mortgage-related securities. Our only involvement with these VIEs is as a passive investor in the beneficial interests issued by the VIE and we do not have any power to influence the significant activities of these VIEs. See "NOTE 7: INVESTMENTS IN SECURITIES" for further information about these investments.

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

We own both single-family mortgage loans, which are secured by one to four unit residential properties, and multifamily mortgage loans, which are secured by properties with five or more residential rental units. Our single-family mortgage loans are predominantly first lien, fixed-rate mortgage loans secured by the borrower's primary residence. For a discussion of our significant accounting policies regarding our mortgage loans and loan loss reserves, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our 2014 Annual Report.

Table of Contents

The table below summarizes the types of mortgage loans on our consolidated balance sheets as of September 30, 2015 and December 31, 2014.

Table 4.1 — Mortgage Loans

	September 30, 2015			December 31, 2014		
	Unsecuritized	Held By Consolidated Trusts	Total	Unsecuritized	Held By Consolidated Trusts	Total
(in millions)						
Single-family:						
Fixed-rate						
Amortizing	\$94,573	\$1,492,466	\$1,587,039	\$105,560	\$1,431,872	\$1,537,432
Interest-only	641	2,461	3,102	939	3,298	4,237
Total fixed-rate	95,214	1,494,927	1,590,141	106,499	1,435,170	1,541,669
Adjustable-rate						
Amortizing	1,070	66,755	67,825	1,353	68,632	69,985
Interest-only	2,458	17,922	20,380	3,191	20,373	23,564
Total adjustable-rate	3,528	84,677	88,205	4,544	89,005	93,549
Other Guarantee Transactions	—	6,123	6,123	—	7,042	7,042
FHA/VA and other governmental	453	2,848	3,301	473	3,139	3,612
Total single-family	99,195	1,588,575	1,687,770	111,516	1,534,356	1,645,872
Multifamily:						
Fixed-rate	42,785	1,737	44,522	43,632	524	44,156
Adjustable-rate	11,432	—	11,432	9,321	—	9,321
Other governmental	3	—	3	3	—	3
Total multifamily	54,220	1,737	55,957	52,956	524	53,480
Total UPB of mortgage loans	153,415	1,590,312	1,743,727	164,472	1,534,880	1,699,352
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(4,611)	) 28,030	23,419	(3,366)	) 26,098	22,732
Fair value adjustments on mortgage loans held-for sale	(860)	) —	(860)	) 257	—	257
Allowance for loan losses on mortgage loans held-for-investment	(13,368)	) (3,051)	(16,419)	) (18,877)	) (2,884)	(21,761)
Total mortgage loans, net	\$134,576	\$1,615,291	\$1,749,867	\$142,486	\$1,558,094	\$1,700,580
Mortgage loans, net:						
Held-for-investment	\$106,723	\$1,615,291	\$1,722,014	\$130,118	\$1,558,094	\$1,688,212
Held-for-sale	27,853	—	27,853	12,368	—	12,368
Total mortgage loans, net	\$134,576	\$1,615,291	\$1,749,867	\$142,486	\$1,558,094	\$1,700,580

During the three months ended September 30, 2015 and the three months ended September 30, 2014, we purchased \$92.6 billion and \$75.8 billion, respectively, in UPB of single-family mortgage loans, and \$1.4 billion and \$0.3 billion, respectively, in UPB of multifamily mortgage loans that were classified as held-for-investment. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we purchased \$271.6 billion and \$182.2 billion, respectively, in UPB of single-family mortgage loans, and \$3.2 billion and \$1.6 billion, respectively, in UPB of multifamily mortgage loans that were classified as held-for-investment.

Our sales of multifamily mortgage loans occur primarily through the issuance of multifamily K Certificates, which we categorize as Other Guarantee Transactions. During the three months ended September 30, 2015 and the three months ended September 30, 2014, we sold \$6.0 billion and \$4.5 billion, respectively, in UPB of held-for-sale multifamily mortgage loans. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014,

we sold \$21.2 billion and \$12.9 billion, respectively, in UPB of held-for-sale multifamily mortgage loans. See "NOTE 14: FINANCIAL GUARANTEES" for more information on our issuances of Other Guarantee Transactions. In January 2015, FHFA informed us that it would not object to our sales of additional seriously delinquent single-family mortgage loans. As a result, we reclassified \$2.5 billion and \$10.6 billion in UPB of mortgage loans from held-for-investment to held-for-sale during the three and nine months ended September 30, 2015, respectively. We reclassified \$1.8 billion and \$2.1 billion in UPB of multifamily mortgage loans from held-for-investment to held-for-sale during the three and nine months ended September 30, 2015, respectively. For information regarding the fair value of our mortgage loans classified as held-for-sale, see "NOTE 16: FAIR VALUE DISCLOSURES."

Table of Contents

Credit Quality of Mortgage Loans

We evaluate the credit quality of single-family mortgage loans using different criteria than the criteria we use to evaluate multifamily mortgage loans. The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family mortgage loans. As estimated current LTV ratios increase, the borrower's equity in the home decreases, which negatively affects the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan.

The table below presents information on the estimated current LTV ratios of single-family held-for-investment mortgage loans on our consolidated balance sheets. Our current LTV ratio estimates are based on available data through the end of each respective period presented.

Table 4.2 — Recorded Investment of Single-Family Mortgage Loans, by LTV Ratio

	As of September 30, 2015				As of December 31, 2014			
	Estimated Current LTV Ratio ⁽¹⁾				Estimated Current LTV Ratio ⁽¹⁾			
	≤ 80	> 80 to 100	> 100 ⁽²⁾	Total	≤ 80	> 80 to 100	> 100 ⁽²⁾	Total
(in millions)								
Single-family mortgage loans:								
20 and 30-year or more, amortizing fixed-rate ⁽³⁾	\$988,352	\$251,940	\$60,174	\$1,300,466	\$911,071	\$258,126	\$85,398	\$1,254,595
15-year amortizing fixed-rate ⁽³⁾	270,533	13,427	2,161	286,121	265,098	14,101	3,338	282,537
Adjustable-rate	60,044	5,559	347	65,950	60,463	6,701	709	67,873
Alt-A, interest-only, and option ARM	27,696	14,597	10,376	52,669	28,935	18,232	16,448	63,615
Total single-family mortgage loans	\$1,346,625	\$285,523	\$73,058	\$1,705,206	\$1,265,567	\$297,160	\$105,893	\$1,668,620

The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time. Changes in market value are derived from our internal index which (1) measures price changes for repeat sales and refinancing activity on the same properties using Freddie Mac and Fannie Mae single-family mortgage loan acquisitions, including foreclosure sales. Estimates of the current LTV ratio include the credit-enhanced portion of the mortgage loan and exclude any secondary financing by third parties.

The serious delinquency rate for the total of single-family held-for-investment mortgage loans with estimated (2) current LTV ratios in excess of 100% was 6.39% and 9.01% as of September 30, 2015 and December 31, 2014, respectively.

The majority of our mortgage loan modifications result in new terms that include fixed interest rates after modification. As of September 30, 2015 and December 31, 2014, we have categorized UPB of approximately (3) \$39.5 billion and \$42.3 billion, respectively, of modified mortgage loans as fixed-rate mortgage loans (instead of as adjustable rate mortgage loans), even though the modified mortgage loans have rate adjustment provisions. In these cases, while the terms of the modified mortgage loans provide for the interest rate to adjust in the future, such future rates are determined at the time of modification rather than at a subsequent date.

We have discontinued our purchases of Alt-A, interest-only, and option ARM loans. For reporting purposes, mortgage loans within the Alt-A category continue to be presented in that category following modification, even though the borrower may have provided full documentation of assets and income to complete the modification, and mortgage loans within the option ARM category continue to be presented in that category following modification, even though the modified mortgage loan no longer provides for optional payment provisions.

A second-lien mortgage loan reduces the borrower's equity in the home, and has a negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first and second mortgage loans. As of September 30, 2015 and December 31, 2014, based on data collected by us at mortgage loan delivery, approximately 13% and 14%, respectively, of mortgage loans in our single-family credit guarantee portfolio had second-lien financing by the originator or other third party at origination of the first mortgage loan. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgage loans.

For further information about concentrations of risk associated with our single-family and multifamily mortgage loans, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS."

The following table presents the recorded investment in our multifamily held-for-investment mortgage loans, by credit quality indicator as of September 30, 2015 and December 31, 2014. The multifamily credit quality indicator is based on available data through the end of each period presented.

Table of Contents

Table 4.3 — Recorded Investment of Multifamily Mortgage Loans, by Credit Classification

	September 30, 2015 (in millions)	December 31, 2014
Credit risk profile by internally assigned grade: ⁽¹⁾		
Pass	\$31,341	\$38,518
Special mention	1,291	1,805
Substandard	595	1,030
Doubtful	—	—
Total	\$33,227	\$41,353

A mortgage loan categorized as: "Pass" is current and adequately protected by the current financial strength and debt service capacity of the borrower; "Special mention" has signs of potential financial weakness; "Substandard" (1) has a well-defined financial weakness that jeopardizes the timely full repayment; and "Doubtful" has a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions.

For information about the payment status of single-family and multifamily mortgage loans, including the amount of such mortgage loans we deem impaired, see "NOTE 5: IMPAIRED MORTGAGE LOANS."

Allowance for Loan Losses and Reserve for Guarantee Losses, or Loan Loss Reserves

Our loan loss reserves consist of our allowance for loan losses on mortgage loans that we classify as held-for investment on our consolidated balance sheets and reserve for guarantee losses associated with Freddie Mac mortgage-related securities backed by multifamily mortgage loans, certain single-family Other Guarantee Transactions, and other guarantee commitments, for which we have incremental credit risk. On January 1, 2015, we adopted regulatory guidance that changed when we deem a mortgage loan to be uncollectible and we recognized \$1.9 billion of charge-offs on that date related to this change in estimate. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for further information about this change.

The table below presents our loan loss reserves activity.

Table 4.4 — Detail of Loan Loss Reserves

	Three Months Ended September 30, 2015				2014			
	Allowance for Loan Losses		Reserve for Guarantee Losses		Allowance for Loan Losses		Reserve for Guarantee Losses	
	Unsecuritized	Held By Consolidated Trusts	Total	Total	Unsecuritized	Held By Consolidated Trusts	Total	Total
	(dollars in millions)							
Single-family:								
Beginning balance	\$14,535	\$ 2,738	\$ 67	\$17,340	\$19,956	\$ 2,652	\$ 100	\$22,708
Provision (benefit) for credit losses	(652)	122	2	(528)	211	378	(5)	584
Charge-offs	(605)	(73)	(2)	(680)	(1,014)	(72)	(2)	(1,088)
Recoveries	174	3	—	177	184	6	—	190
Transfers, net ⁽¹⁾	(128)	260	(1)	131	55	137	—	192
Ending balance	\$13,324	\$ 3,050	\$ 66	\$16,440	\$19,392	\$ 3,101	\$ 93	\$22,586
Multifamily:								
Beginning balance	\$54	\$ —	\$ 14	\$68	\$91	\$ —	\$ 16	\$107
Provision (benefit) for credit losses	(6)	—	6	—	(11)	—	1	(10)
Charge-offs	(3)	—	—	(3)	—	—	—	—
Recoveries	—	—	—	—	1	—	—	1
Transfers, net ⁽¹⁾	(1)	1	—	—	—	—	—	—

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Ending balance	\$44	\$ 1	\$ 20	\$65	\$81	\$—	\$ 17	\$98
Total:								
Beginning balance	\$14,589	\$ 2,738	\$ 81	\$17,408	\$20,047	\$ 2,652	\$ 116	\$22,815
Provision (benefit) for credit losses	(658	) 122	8	(528	) 200	378	(4	) 574
Charge-offs	(608	) (73	) (2	) (683	) (1,014	) (72	) (2	) (1,088
Recoveries	174	3	—	177	185	6	—	191
Transfers, net ⁽¹⁾	(129	) 261	(1	) 131	55	137	—	192
Ending balance	\$13,368	\$ 3,051	\$ 86	\$16,505	\$19,473	\$ 3,101	\$ 110	\$22,684

Ratio of total loan loss reserves (excluding reserves for TDR concessions) to annualized net charge-offs for single-family mortgage loans

2.9

3.1

Ratio of total loan loss reserves to annualized net charge-offs for single-family mortgage loans

8.2

6.3

Table of Contents

	Nine Months Ended September 30, 2015				2014			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
	Unsecuritized	Held By Consolidated Trusts			Unsecuritized	Held By Consolidated Trusts		
	(in millions)							
Single-family:								
Beginning balance	\$18,800	\$2,884	\$109	\$21,793	\$21,487	\$3,006	\$85	\$24,578
Provision (benefit) for credit losses	(2,050)	) 222	(36)	(1,864)	(665)	) 745	13	93
Charge-offs	(4,179)	) (298)	(6)	(4,483)	(3,464)	) (298)	(5)	(3,767)
Recoveries	535	12	—	547	848	252	—	1,100
Transfers, net ⁽¹⁾	218	230	(1)	447	1,186	(604)	—	582
Ending balance	\$13,324	\$3,050	\$66	\$16,440	\$19,392	\$3,101	\$93	\$22,586
Multifamily:								
Beginning balance	\$77	\$—	\$17	\$94	\$125	\$—	\$26	\$151
Provision (benefit) for credit losses	(23)	) —	3	(20)	(43)	) —	(9)	(52)
Charge-offs	(9)	) —	—	(9)	(2)	) —	—	(2)
Recoveries	—	—	—	—	1	—	—	1
Transfers, net ⁽¹⁾	(1)	) 1	—	—	—	—	—	—
Ending balance	\$44	\$1	\$20	\$65	\$81	\$—	\$17	\$98
Total:								
Beginning balance	\$18,877	\$2,884	\$126	\$21,887	\$21,612	\$3,006	\$111	\$24,729
Provision (benefit) for credit losses	(2,073)	) 222	(33)	(1,884)	(708)	) 745	4	41
Charge-offs	(4,188)	) (298)	(6)	(4,492)	(3,466)	) (298)	(5)	(3,769)
Recoveries	535	12	—	547	849	252	—	1,101
Transfers, net ⁽¹⁾	217	231	(1)	447	1,186	(604)	—	582
Ending balance	\$13,368	\$3,051	\$86	\$16,505	\$19,473	\$3,101	\$110	\$22,684

Includes approximately \$0.1 billion and \$0.2 billion during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively; and \$0.4 billion and \$0.6 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, attributable to

(1) capitalization of past due interest on modified mortgage loans. Also includes amounts associated with reclassified single-family reserves related to our removal of mortgage loans previously held by consolidated trusts, net of reclassifications for single-family mortgage loans subsequently resecured after such removal.

The table below presents our allowance for loan losses and our recorded investment in mortgage loans, held-for-investment, by impairment evaluation methodology.

Table 4.5 — Net Investment in Mortgage Loans

	September 30, 2015			December 31, 2014		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
	(in millions)					
Recorded investment:						
Collectively evaluated	\$1,612,481	\$32,659	\$1,645,140	\$1,568,237	\$40,451	\$1,608,688
Individually evaluated	92,725	568	93,293	100,383	902	101,285

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Total recorded investment	1,705,206	33,227	1,738,433	1,668,620	41,353	1,709,973
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,527)	(21)	(1,548)	(3,847)	(25)	(3,872)
Individually evaluated	(14,847)	(24)	(14,871)	(17,837)	(52)	(17,889)
Total ending balance of the allowance	(16,374)	(45)	(16,419)	(21,684)	(77)	(21,761)
Net investment in mortgage loans	\$1,688,832	\$33,182	\$1,722,014	\$1,646,936	\$41,276	\$1,688,212

A significant number of unsecuritized single-family mortgage loans on our consolidated balance sheets are individually evaluated for impairment while substantially all single-family mortgage loans held by our consolidated trusts are collectively evaluated for impairment. The ending balance of the allowance for loan losses associated with our held-for-investment unsecuritized mortgage loans represented approximately 11.1% and 12.7% of the recorded investment in such mortgage loans at September 30, 2015 and December 31, 2014, respectively, and a substantial portion of the allowance associated with these mortgage loans represented interest rate concessions provided to borrowers as part of mortgage loan modifications. The ending

Table of Contents

balance of the allowance for loan losses associated with mortgage loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such mortgage loans as of both September 30, 2015 and December 31, 2014.

Credit Protection and Other Forms of Credit Enhancement

In connection with many of our mortgage loans and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, credit risk transfer transactions, pool insurance, lender recourse and indemnification, and other forms of credit enhancements.

The table below presents the UPB of mortgage loans on our consolidated balance sheets or underlying our financial guarantees with credit protection and the maximum amounts of potential loss recovery by type of credit protection.

Table 4.6 — Recourse and Other Forms of Credit Protection⁽¹⁾

	UPB at		Maximum Coverage ⁽²⁾ at	
	September 30, 2015 (in millions)	December 31, 2014	September 30, 2015	December 31, 2014
Single-family:				
Primary mortgage insurance	\$249,182	\$227,495	\$63,693	\$57,938
Other credit protection:				
STACR debt note and ACIS transactions ⁽³⁾	214,902	144,272	11,906	6,657
Lender recourse and indemnifications	6,267	6,527	5,505	6,092
Pool insurance ⁽⁴⁾	1,821	2,284	790	947
HFA indemnification	2,715	3,357	2,715	3,324
Subordination ⁽⁵⁾	2,477	2,377	315	339
Other credit enhancements	19	20	15	18
Total	\$477,383	\$386,332	\$84,939	\$75,315
Multifamily:				
K Certificates	\$90,704	\$75,541	\$16,488	\$13,576
Subordination ⁽⁵⁾	5,252	4,724	887	796
HFA indemnification	711	772	699	699
Other credit enhancements	6,269	5,706	2,298	1,685
Total	\$102,936	\$86,743	\$20,372	\$16,756

Except for the majority of our single-family credit risk transfer transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related mortgage loans.

(1) Excludes: (a) FHA/VA and other governmental mortgage loans; (b) purchased credit protection associated with \$8.7 billion and \$9.8 billion in UPB of single-family mortgage loans underlying Other Guarantee Transactions as of September 30, 2015 and December 31, 2014, respectively; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite mortgage loans and service them in accordance with our standards.

(2) Except for subordination and K Certificates, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements. For subordination and K Certificates coverage, this represents the UPB of the securities that are subordinate to our guarantee, which provide protection by absorbing first losses.

(3) Excludes \$72.6 billion and \$48.3 billion in UPB at September 30, 2015 and December 31, 2014, respectively, where the related mortgage loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the outstanding balance of STACR debt notes held by third parties as well as the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(4) Excludes approximately \$0.7 billion and \$0.9 billion in UPB at September 30, 2015 and December 31, 2014, respectively, where the related mortgage loans are also covered by primary mortgage insurance.

(5) Represents Freddie Mac issued mortgage-related securities with subordination protection, excluding multifamily K Certificates and those securities backed by state and local HFA bonds related to the HFA initiative.

Primary mortgage insurance and credit risk transfers are the most prevalent types of credit enhancements protecting our single-family credit guarantee portfolio. For information about counterparty risk associated with mortgage insurers, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers.”

Our credit risk transfer transactions include STACR debt note and ACIS transactions, which provide credit enhancement by transferring a portion of credit losses on single-family mortgage loans to third party investors and insurers. The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant mortgage loan defaults. We completed six and five STACR debt note transactions during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. We completed six and two ACIS transactions during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

We also have credit enhancements protecting our multifamily mortgage portfolio. The most prevalent type is subordination, primarily through our K Certificates. Through subordination, we mitigate our credit risk exposure by structuring our securities to sell the expected credit risk to private investors who purchase the subordinate tranches.

Table of Contents

We also have credit protection for certain mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA, and USDA). The total UPB of these mortgage loans was \$3.3 billion and \$3.6 billion as of September 30, 2015 and December 31, 2014, respectively.

Non-Cash Investing and Financing Activities

We acquired \$189.0 billion and \$137.1 billion of mortgage loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. These guarantor swap transactions during the nine months ended September 30, 2015 included approximately \$7.6 billion of mortgage loans received from sellers to satisfy advances that were recorded in other assets on our condensed consolidated balance sheets.

NOTE 5: IMPAIRED MORTGAGE LOANS

Individually Impaired Mortgage Loans

Individually impaired single-family mortgage loans include TDRs, as well as mortgage loans acquired under our financial guarantees with deteriorated credit quality. Individually impaired multifamily mortgage loans include TDRs, mortgage loans three monthly payments or more past due, and mortgage loans that are impaired based on management judgment.

Total loan loss reserves consist of a specific allowance related to individually impaired mortgage loans, and a general reserve for other probable incurred losses. Our recorded investment in individually impaired mortgage loans and the related specific allowance are summarized in the table below by product class (for single-family mortgage loans).

Table of Contents

Table 5.1 — Individually Impaired Mortgage Loans

	Balance at September 30, 2015				For the Three Months Ended September 30, 2015			For the Nine Months Ended September 30, 2015		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾
	(in millions)									
Single-family —										
With no specific allowance recorded: ⁽²⁾										
20 and 30-year or more, amortizing fixed-rate	\$4,583	\$ 3,390	N/A	\$ 3,390	\$3,415	\$ 100	\$ 2	\$3,265	\$ 288	\$ 9
15-year amortizing fixed-rate	45	37	N/A	37	38	2	—	42	6	—
Adjustable-rate Alt-A, interest-only, and option ARM	137	133	N/A	133	135	1	—	84	2	—
Total with no specific allowance recorded	1,158	840	N/A	840	844	20	—	781	59	2
With specific allowance recorded: ⁽³⁾										
20 and 30-year or more, amortizing fixed-rate	74,152	72,351	\$(11,882)	60,469	72,585	627	67	74,209	1,898	242
15-year amortizing fixed-rate	1,001	1,004	(22)	982	989	11	2	1,056	35	8
Adjustable-rate Alt-A, interest-only, and option ARM	591	585	(32)	553	579	4	1	676	14	3
Total with specific allowance	14,959	14,385	(2,911)	11,474	14,509	100	11	15,201	305	44
Total with specific allowance	90,703	88,325	(14,847)	73,478	88,662	742	81	91,142	2,252	297

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recorded Combined single-family: 20 and 30-year or more, amortizing fixed-rate	78,735	75,741	(11,882)	63,859	76,000	727	69	77,474	2,186	251
15-year amortizing fixed-rate	1,046	1,041	(22)	1,019	1,027	13	2	1,098	41	8
Adjustable-rate Alt-A, interest-only, and option ARM	728	718	(32)	686	714	5	1	760	16	3
Total single-family	\$96,626	\$92,725	\$(14,847)	\$77,878	\$93,094	\$865	\$83	\$95,314	\$2,607	\$308
Multifamily — With no specific allowance recorded ⁽⁴⁾	\$399	\$391	N/A	\$391	\$423	\$6	\$3	\$635	\$20	\$7
With specific allowance recorded	182	177	\$(24)	153	197	2	1	261	7	5
Total multifamily	\$581	\$568	\$(24)	\$544	\$620	\$8	\$4	\$896	\$27	\$12
Total single-family and multifamily	\$97,207	\$93,293	\$(14,871)	\$78,422	\$93,714	\$873	\$87	\$96,210	\$2,634	\$320

Table of Contents

	Balance at December 31, 2014				For the Three Months Ended September 30, 2014			For the Nine Months Ended September 30, 2014		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾
	(in millions)									
Single-family —										
With no specific allowance recorded: ⁽²⁾										
20 and 30-year or more, amortizing fixed-rate	\$6,041	\$4,007	N/A	\$4,007	\$3,941	\$ 105	\$ 12	\$3,618	\$ 277	\$ 27
15-year amortizing fixed-rate	63	44	N/A	44	45	3	—	37	7	1
Adjustable rate	27	22	N/A	22	22	—	—	15	1	—
Alt-A, interest-only, and option ARM	1,717	1,168	N/A	1,168	1,151	22	2	1,119	60	4
Total with no specific allowance recorded	7,848	5,241	N/A	5,241	5,159	130	14	4,789	345	32
With specific allowance recorded: ⁽³⁾										
20 and 30-year or more, amortizing fixed-rate	77,798	76,708	\$(14,051)	62,657	76,001	588	82	75,562	1,760	213
15-year amortizing fixed-rate	1,226	1,233	(40)	1,193	1,225	13	3	1,255	41	7
Adjustable rate	868	866	(65)	801	857	5	2	891	17	4
Alt-A, interest-only, and option ARM	16,734	16,335	(3,681)	12,654	16,410	95	19	16,531	286	46
Total with specific allowance recorded	96,626	95,142	(17,837)	77,305	94,493	701	106	94,239	2,104	270

allowance recorded										
Combined single-family:										
20 and 30-year or more, amortizing fixed-rate	83,839	80,715	(14,051)	66,664	79,942	693	94	79,180	2,037	240
15-year amortizing fixed-rate	1,289	1,277	(40)	1,237	1,270	16	3	1,292	48	8
Adjustable rate	895	888	(65)	823	879	5	2	906	18	4
Alt-A, interest-only, and option ARM	18,451	17,503	(3,681)	13,822	17,561	117	21	17,650	346	50
Total single-family	\$104,474	\$100,383	\$(17,837)	\$82,546	\$99,652	\$831	\$120	\$99,028	\$2,449	\$302
Multifamily —										
With no specific allowance recorded ⁽⁴⁾	\$440	\$431	N/A	\$431	\$526	\$8	\$2	\$656	\$24	\$7
With specific allowance recorded	480	471	\$(52)	419	474	6	4	521	19	13
Total multifamily	\$920	\$902	\$(52)	\$850	\$1,000	\$14	\$6	\$1,177	\$43	\$20
Total single-family and multifamily	\$105,394	\$101,285	\$(17,889)	\$83,396	\$100,652	\$845	\$126	\$100,205	\$2,492	\$322

(1) Consists of income recognized during the period related to mortgage loans on non-accrual status.

Individually impaired single-family mortgage loans with no specific allowance primarily represent mortgage loans

(2) removed from PC pools and accounted for in accordance with the accounting guidance for loans and debt securities acquired with deteriorated credit quality that have not experienced further deterioration.

(3) Consists primarily of mortgage loans classified as TDRs.

Individually impaired multifamily mortgage loans with no specific allowance primarily represent those mortgage

(4) loans for which the collateral value is sufficiently in excess of the mortgage loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.

Table of Contents

Mortgage Loan Performance

The table below presents the recorded investment of our single-family and multifamily mortgage loans, held-for-investment, by payment status.

Table 5.2 — Payment Status of Mortgage Loans

	September 30, 2015					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure ⁽¹⁾	Total	Non-accrual
	(in millions)					
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$ 1,265,447	\$ 16,770	\$ 5,151	\$ 13,098	\$ 1,300,466	\$ 13,095
15-year amortizing fixed-rate	284,626	965	185	345	286,121	345
Adjustable-rate	65,206	393	94	257	65,950	257
Alt-A, interest-only, and option ARM	47,027	2,098	777	2,767	52,669	2,765
Total single-family	1,662,306	20,226	6,207	16,467	1,705,206	16,462
Total multifamily	33,227	—	—	—	33,227	242
Total single-family and multifamily	\$ 1,695,533	\$ 20,226	\$ 6,207	\$ 16,467	\$ 1,738,433	\$ 16,704
	December 31, 2014					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure ⁽¹⁾	Total	Non-accrual
	(in millions)					
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$ 1,207,826	\$ 17,516	\$ 5,817	\$ 23,436	\$ 1,254,595	\$ 23,433
15-year amortizing fixed-rate	280,629	1,010	216	682	282,537	682
Adjustable-rate	66,737	406	118	612	67,873	612
Alt-A, interest-only, and option ARM	53,251	2,368	948	7,048	63,615	7,045
Total single-family	1,608,443	21,300	7,099	31,778	1,668,620	31,772
Total multifamily	41,335	7	11	—	41,353	385
Total single-family and multifamily	\$ 1,649,778	\$ 21,307	\$ 7,110	\$ 31,778	\$ 1,709,973	\$ 32,157

(1) Includes \$7.5 billion and \$17.9 billion of mortgage loans that were in the process of foreclosure as of September 30, 2015 and December 31, 2014, respectively.

The table below summarizes the delinquency rates of mortgage loans within our single-family credit guarantee and multifamily mortgage portfolios.

Table of Contents

Table 5.3 — Delinquency Rates

	September 30, 2015	December 31, 2014	
Single-family: ⁽¹⁾			
Non-credit-enhanced portfolio			
Serious delinquency rate	1.36	% 1.74	%
Total number of seriously delinquent mortgage loans	111,964	150,300	
Credit-enhanced portfolio: ⁽²⁾			
Primary mortgage insurance:			
Serious delinquency rate	2.26	% 3.10	%
Total number of seriously delinquent mortgage loans	29,805	38,595	
Other credit protection: ⁽³⁾			
Serious delinquency rate	0.67	% 1.21	%
Total number of seriously delinquent mortgage loans	9,762	12,175	
Total single-family:			
Serious delinquency rate	1.41	% 1.88	%
Total number of seriously delinquent mortgage loans	150,564	200,069	
Multifamily: ⁽⁴⁾			
Non-credit-enhanced portfolio:			
Delinquency rate	—	% 0.02	%
UPB of delinquent mortgage loans (in millions)	\$—	\$11	
Credit-enhanced portfolio:			
Delinquency rate	0.02	% 0.05	%
UPB of delinquent mortgage loans (in millions)	\$21	\$44	
Total Multifamily:			
Delinquency rate	0.01	% 0.04	%
UPB of delinquent mortgage loans (in millions)	\$21	\$55	

Serious delinquencies on single-family mortgage loans underlying certain REMICs and Other Structured (1)Securities, Other Guarantee Transactions, and other guarantee commitments may be reported on a different schedule due to variances in industry practice.

(2) The credit enhanced categories are not mutually exclusive as a single mortgage loan may be covered by both primary mortgage insurance and other credit protection.

Consists of single-family mortgage loans covered by financial arrangements (other than primary mortgage (3)insurance) that are designed to reduce our credit risk exposure. See "Table 4.6 — Recourse and Other Forms of Credit Protection" for more information.

Multifamily delinquency performance is based on UPB of mortgage loans that are two monthly payments or more (4)past due or those in the process of foreclosure and includes multifamily Other Guarantee Transactions (e.g., K Certificates).

Troubled Debt Restructurings

Single-Family TDRs

During both the three and nine months ended September 30, 2015, approximately 43% of completed single-family mortgage loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions, and approximately 16% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During the three and nine months ended September 30, 2015, the average term extension was 185 months and 191 months, respectively, and the average interest rate reduction was 0.9% in both periods on completed single-family mortgage loan modifications classified as TDRs.

TDR Activity and Performance

The table below presents the volume of single-family and multifamily mortgage loans that were newly classified as TDRs during the periods presented, based on the original category of the mortgage loan before the mortgage loan was classified as a TDR. A mortgage loan classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the mortgage loan would already have been classified as a TDR.

Table of Contents

Table 5.4 — TDR Activity, by Segment

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Number of Mortgage Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
(dollars in millions)								
Single-family: ⁽¹⁾								
20 and 30-year or more, amortizing fixed-rate	10,899	\$ 1,530	17,194	\$ 2,518	35,922	\$ 5,121	52,356	\$ 7,863
15-year amortizing fixed-rate	1,428	102	1,931	139	4,483	327	5,278	394
Adjustable-rate	293	42	397	61	1,026	150	1,336	207
Alt-A, interest-only, and option ARM	941	167	2,070	418	3,455	642	7,206	1,472
Total Single-family	13,561	1,841	21,592	3,136	44,886	6,240	66,176	9,936
Multifamily	—	—	—	—	1	30	1	10
Total	13,561	\$ 1,841	21,592	\$ 3,136	44,887	\$ 6,270	66,177	\$ 9,946

The pre-TDR recorded investment for single-family mortgage loans initially classified as TDR during the three and (1) nine months ended September 30, 2015 was \$1.8 billion and \$6.2 billion, respectively, compared to \$3.1 billion and \$9.9 billion during the three and nine months ended September 30, 2014, respectively.

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., mortgage loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents mortgage loans based on their original product category before modification and excludes mortgage loans subject to other loss mitigation activity. Substantially all of our completed single-family mortgage loan modifications classified as a TDR during the nine months ended September 30, 2015 resulted in a modified loan with a fixed interest rate. However, many of these fixed-rate mortgage loans include provisions for the reduced interest rates to remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification.

Table 5.5 — Payment Defaults of Completed TDR Modifications, by Segment

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Number of Loans	Post-TDR Recorded Investment ⁽²⁾	Number of Loans	Post-TDR Recorded Investment ⁽²⁾	Number of Loans	Post-TDR Recorded Investment ⁽²⁾	Number of Loans	Post-TDR Recorded Investment ⁽²⁾
(dollars in millions)								
Single-family:								
20 and 30-year or more, amortizing fixed-rate	4,919	\$ 787	5,190	\$ 922	13,692	\$ 2,278	13,814	\$ 2,483
15-year amortizing fixed-rate	227	17	170	16	664	54	461	45
Adjustable-rate	93	15	88	15	243	41	250	46
	506	109	604	138	1,464	337	1,778	428

Alt-A,
interest-only, and
option ARM

Total single-family	5,745	\$ 928	6,052	\$ 1,091	16,063	\$ 2,710	16,303	\$ 3,002
Multifamily	—	\$ —	—	\$ —	—	\$ —	—	\$ —

(1) Represents TDR mortgage loans that experienced a payment default during the period and had completed a modification during the year preceding the payment default.

(2) Represents the recorded investment at the end of the period in which the mortgage loan was modified and does not represent the recorded investment as of September 30.

In addition to modifications, mortgage loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or modification trial periods). During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, 7,280 and 6,779, respectively, of such mortgage loans (with a post-TDR recorded investment of \$0.9 billion and \$1.0 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

Mortgage loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the mortgage loan was not already classified as a TDR for other reasons). During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, 1,821 and 3,027, respectively, of such mortgage loans

Table of Contents

(with a post-TDR recorded investment of \$0.2 billion and \$0.5 billion, respectively) experienced a payment default within a year after the borrowers' bankruptcy.

NOTE 6: REAL ESTATE OWNED

We obtain REO properties when we are the highest bidder at foreclosure sales of properties that collateralize single-family and multifamily mortgage loans owned by us or when a delinquent borrower chooses to transfer the mortgaged property to us in lieu of going through the foreclosure process (i.e., deed in lieu of foreclosure). See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in our 2014 Annual Report for a discussion of our significant accounting policies for REO.

The table below provides a summary of the change in the carrying value of our combined single-family and multifamily REO balances. For the periods presented in the table below, the weighted average holding period for our disposed properties was less than one year.

Table 6.1 — REO

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in millions)			
Beginning balance — REO	\$2,034	\$3,696	\$2,684	\$4,602
Additions	524	815	1,769	3,293
Dispositions	(696	) (1,475	) (2,591	) (4,859
Ending balance — REO	1,862	3,036	1,862	3,036
Beginning balance, valuation allowance	(56	) (19	) (126	) (51
Change in valuation allowance	(11	) (106	) 59	(74
Ending balance, valuation allowance	(67	) (125	) (67	) (125
Ending balance — REO, net	\$1,795	\$2,911	\$1,795	\$2,911

The REO balance, net associated with single-family properties was \$1.8 billion and \$2.6 billion at September 30, 2015 and December 31, 2014, respectively, and the balance associated with multifamily properties was \$8 million and \$0 at September 30, 2015 and December 31, 2014, respectively. Our single-family REO inventory consisted of 17,780 properties and 25,768 properties at September 30, 2015 and December 31, 2014, respectively.

Non-Cash Investing and Financing Activities

REO property acquisitions as a result of the derecognition of mortgage loans held on our condensed consolidated balance sheets upon foreclosure of the underlying collateral or deed in lieu of foreclosure represent non-cash transfers. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we had transfers of \$1.6 billion and \$3.1 billion, respectively, from mortgage loans to REO.

NOTE 7: INVESTMENTS IN SECURITIES

The table below summarizes amortized cost, estimated fair values, and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type. At September 30, 2015 and December 31, 2014, all available-for-sale securities were mortgage-related securities.

Table of Contents

Table 7.1 — Available-For-Sale Securities

September 30, 2015	Amortized Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Other-Than-Temporary Impairment ⁽¹⁾	Temporary Impairment ⁽²⁾	
Available-for-sale securities:					
Freddie Mac	\$34,130	\$1,480	\$—	\$(33)	\$35,577
Fannie Mae	7,544	313	—	(21)	7,836
Ginnie Mae	159	14	—	—	173
CMBS	13,907	669	—	—	14,576
Subprime	13,501	702	(321)	(73)	13,809
Option ARM	3,630	326	(68)	(6)	3,882
Alt-A and other	3,158	513	(20)	(5)	3,646
Obligations of states and political subdivisions	1,458	23	—	(1)	1,480
Manufactured housing	504	91	(1)	—	594
Total available-for-sale securities	\$77,991	\$4,131	\$(410)	\$(139)	\$81,573
December 31, 2014					
Available-for-sale securities:					
Freddie Mac	\$37,710	\$1,435	\$—	\$(46)	\$39,099
Fannie Mae	10,860	463	—	(10)	11,313
Ginnie Mae	183	16	—	—	199
CMBS	20,988	890	(2)	(54)	21,822
Subprime	20,210	989	(518)	(92)	20,589
Option ARM	5,460	372	(179)	(4)	5,649
Alt-A and other	4,500	578	(29)	(6)	5,043
Obligations of states and political subdivisions	2,166	34	—	(2)	2,198
Manufactured housing	556	84	(2)	—	638
Total available-for-sale securities	\$102,633	\$4,861	\$(730)	\$(214)	\$106,550

(1) Represents the gross unrealized losses for securities for which we have previously recognized other-than-temporary impairments in earnings.

(2) Represents the gross unrealized losses for securities for which we have not previously recognized other-than-temporary impairments in earnings.

Available-For-Sale Securities in a Gross Unrealized Loss Position

The table below shows the fair value of available-for-sale securities in a gross unrealized loss position, and whether they have been in that position less than 12 months, or 12 months or greater.

Table of Contents

Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position

September 30, 2015	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)			
Available-for-sale securities:				
Freddie Mac	\$2,547	\$(8)	\$1,188	\$(25)
Fannie Mae	3,183	(19)	335	(2)
Ginnie Mae	—	—	58	—
CMBS	175	—	152	—
Subprime	1,767	(18)	4,607	(376)
Option ARM	348	(7)	691	(67)
Alt-A and other	128	(1)	379	(24)
Obligations of states and political subdivisions	9	—	12	(1)
Manufactured housing	—	—	14	(1)
Total available-for-sale securities in a gross unrealized loss position	\$8,157	\$(53)	\$7,436	\$(496)
December 31, 2014				
Available-for-sale securities:				
Freddie Mac	\$2,531	\$(14)	\$936	\$(32)
Fannie Mae	2,693	(9)	5	(1)
Ginnie Mae	66	—	—	—
CMBS	184	(5)	1,149	(51)
Subprime	286	(3)	6,533	(607)
Option ARM	77	—	1,490	(183)
Alt-A and other	185	(5)	499	(30)
Obligations of states and political subdivisions	48	—	28	(2)
Manufactured housing	42	—	15	(2)
Total available-for-sale securities in a gross unrealized loss position	\$6,112	\$(36)	\$10,655	\$(908)

At September 30, 2015, total gross unrealized losses on available-for-sale securities were \$0.5 billion. The gross unrealized losses relate to 332 individual lots representing 299 separate securities. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for an individual security may be in an unrealized gain position while other lots for that security may be in an unrealized loss position, depending upon the amortized cost of the specific lot.

Impairment Recognition on Investments in Securities

The table below presents the modeled attributes, including default rates, prepayment rates, and severities, without regard to subordination, that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities

	September 30, 2015		
	Subprime	Option ARM	Alt-A
	(dollars in millions)		
UPB	\$18,539	\$5,604	\$3,066
Weighted average collateral defaults ⁽¹⁾	44	% 28	% 23

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Weighted average collateral severities ⁽²⁾	65	% 62	% 48	%
Weighted average voluntary prepayment rates ⁽³⁾	3	% 9	% 10	%
Average credit enhancements ⁽⁴⁾	7	% (1	)% 1	%

- (1) The expected cumulative default rate is expressed as a percentage of the current collateral UPB.
- (2) The expected average loss given default is calculated as the ratio of cumulative loss over cumulative default for each security.
- (3) The security's voluntary prepayment rate represents the average of the monthly voluntary prepayment rate weighted by the security's outstanding UPB.
- (4) Positive values reflect the amount of subordination and other financial support (excluding credit enhancement provided by bond insurance) that will incur losses in the securitization structure before any losses are allocated to securities that we own. Percentage generally calculated based on the total UPB of securities subordinate to the securities we own divided by the total UPB of all of the securities issued by the trust (excluding notional balances). Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

Table of Contents

Other-Than-Temporary Impairments on Available-for-Sale Securities

The table below summarizes our net impairment of available-for-sale securities recognized in earnings by security type.

Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
	(in millions)			
Available-for-sale securities: ⁽¹⁾				
CMBS	\$—	\$—	\$(29)	\$—
Subprime	(34)	(125)	(123)	(582)
Option ARM	(19)	(39)	(88)	(72)
Alt-A and other	(1)	(2)	(5)	(33)
Total net impairment of available-for-sale securities recognized in earnings	\$(54)	\$(166)	\$(245)	\$(687)

(1) Includes \$38 million and \$203 million of other-than-temporary impairments recognized in earnings during the three and nine months ended September 30, 2015, respectively, compared to \$132 million and \$598 million during the three and nine months ended September 30, 2014, respectively, as we had the intent to sell the related securities before recovery of their amortized cost basis.

The table below presents the changes in the unrealized credit-related other-than-temporary impairment component of the amortized cost related to available-for-sale securities that we have written down for other-than-temporary impairment and for which the credit component of the loss has been recognized in earnings.

Table 7.5 — Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
	(in millions)			
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	\$5,679	\$11,118	\$6,798	\$14,463
Additions:				
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized	16	34	42	89
Reductions:				
Amounts related to securities which were sold, written off, or matured	(21)	(807)	(108)	(1,141)
Amounts for which we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis	(60)	(1,949)	(951)	(4,736)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security	(79)	(110)	(246)	(389)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings ⁽¹⁾	\$5,535	\$8,286	\$5,535	\$8,286

(1) Excludes other-than-temporary impairments on securities that we intend to sell or it is more likely than not that we will be required to sell before recovery of the unrealized losses.

Realized Gains and Losses on Sales of Available-For-Sale Securities

The table below illustrates the gross realized gains and gross realized losses from the sale of available-for-sale securities.

Table 7.6 — Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
	(in millions)			
Gross realized gains	\$324	\$273	\$1,177	\$1,394
Gross realized losses	(12	) (166	) (23	) (182
Net realized gains (losses)	\$312	\$107	\$1,154	\$1,212

Maturities of Available-For-Sale Securities

The table below summarizes the remaining contractual maturities of available-for-sale securities.

Table of Contents

Table 7.7 — Contractual Maturities of Available-For-Sale Securities

As of September 30, 2015

	Total Amortized Cost	Total Fair Value	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
			Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in millions)										
Available-for-sale securities:										
Freddie Mac	\$34,130	\$35,577	\$—	\$—	\$79	\$79	\$730	\$731	\$33,321	\$34,767
Fannie Mae	7,544	7,836	3	3	19	20	80	90	7,442	7,723
Ginnie Mae	159	173	—	—	2	2	20	24	137	147
CMBS	13,907	14,576	—	—	315	325	8	8	13,584	14,243
Subprime	13,501	13,809	—	—	—	—	—	—	13,501	13,809
Option ARM	3,630	3,882	—	—	—	—	—	—	3,630	3,882
Alt-A and other	3,158	3,646	1	1	16	16	7	8	3,134	3,621
Obligations of states and political subdivisions	1,458	1,480	—	—	34	36	65	68	1,359	1,376
Manufactured housing	504	594	—	—	1	—	7	10	496	584
Total available-for-sale securities	\$77,991	\$81,573	\$4	\$4	\$466	\$478	\$917	\$939	\$76,604	\$80,152

Trading Securities

The table below summarizes the estimated fair values by major security type for trading securities. Our trading securities mainly consist of Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating rate, interest-only and principal-only securities.

Table 7.8 — Trading Securities

	September 30, 2015	December 31, 2014
(in millions)		
Mortgage-related securities:		
Freddie Mac	\$16,324	\$17,469
Fannie Mae	6,887	6,099
Ginnie Mae	290	16
Other	147	171
Total mortgage-related securities	23,648	23,755
U.S. Treasury securities	12,158	6,682
Total fair value of trading securities	\$35,806	\$30,437

As of September 30, 2015, our agency securities classified as trading were generally in an unrealized gain position and therefore we expect to recognize losses on these securities as they approach maturity and move closer to par. During the three and nine months ended September 30, 2015, we recorded net unrealized gains (losses) on trading securities held at those dates of \$(63) million and \$(349) million, respectively. During the three and nine months ended September 30, 2014, we recorded net unrealized gains (losses) on trading securities held at those dates of \$(142) million and \$(141) million, respectively.

Non-Cash Investing and Financing Activities

From time to time, we contribute PCs, single-class REMICs and Other Structured Securities held in our mortgage-related investments portfolio to non-consolidated multiclass REMIC and Other Structured Securities trusts in exchange for beneficial interests in those same multiclass REMIC and Other Structured Securities trusts. We account for this type of transaction as the acquisition of investment securities and the issuance of debt securities of consolidated trusts. During the nine months ended September 30, 2015 and September 30, 2014, we received investment securities as consideration for the issuance of debt securities of consolidated trusts of \$0.0 billion and \$1.2 billion respectively.

NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own

Table of Contents

on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our “indebtedness” is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, “indebtedness” does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” for information regarding restrictions on the amount of mortgage-related securities that we may own.

Our debt cap under the Purchase Agreement is \$563.6 billion in 2015 and will decline to \$479.0 billion on January 1, 2016. As of September 30, 2015, our aggregate indebtedness was \$411.8 billion. Our aggregate indebtedness is calculated as the par value of other short- and long-term debt.

In the tables below, the categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt.

Other Debt

The table below summarizes the balances and effective interest rates for other debt. We had no balances in securities sold under agreements to repurchase at either September 30, 2015 or December 31, 2014.

Table 8.1 — Other Debt

	September 30, 2015			December 31, 2014			
	Par Value	Carrying Amount ⁽¹⁾	Weighted Average Effective Rate ⁽²⁾	Par Value	Carrying Amount ⁽¹⁾	Weighted Average Effective Rate ⁽²⁾	
(dollars in millions)							
Other short-term debt:							
Reference							
Bills [®] securities and other discount notes	\$ 104,484	\$ 104,435	0.18	% \$ 134,670	\$ 134,619	0.12	%
Medium-term notes	7,845	7,845	0.17	—	—	—	
Total other short-term debt	\$ 112,329	\$ 112,280	0.18	\$ 134,670	\$ 134,619	0.12	
Other long-term debt:							
Original maturities on or before December 31,							
2015	\$ 13,026	\$ 13,025	1.73	% \$ 58,841	\$ 58,830	1.62	%
2016	59,500	59,599	2.11	72,504	72,696	1.88	
2017	83,610	83,756	1.58	77,482	77,489	1.78	
2018	46,224	46,250	1.53	30,850	30,823	1.67	
2019	28,615	28,540	1.88	30,671	30,570	1.97	
Thereafter	68,501	64,831	3.11	49,011	45,042	3.42	
Total other long-term debt ⁽³⁾	299,476	296,001	2.05	319,359	315,450	2.02	
Total other debt	\$ 411,805	\$ 408,281		\$ 454,029	\$ 450,069		

Represents par value, net of associated discounts or premiums, and hedge-related basis adjustments. Includes \$7.4 (1) billion and \$5.8 billion at September 30, 2015 and December 31, 2014, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, issuance costs, and hedge-related basis adjustments.

(3) Balance, net for other long-term debt includes callable debt of \$101.1 billion and \$106.3 billion at September 30, 2015 and December 31, 2014, respectively, which gives us the option to call or not call debt

for a variety of reasons that include managing the composition of liabilities or economic reasons.

Debt Securities of Consolidated Trusts Held by Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts. Debt securities of consolidated trusts held by third parties are prepayable as the loans that collateralize the debt may prepay without penalty at any time.

The table below summarizes the debt securities of consolidated trusts held by third parties based on underlying mortgage product type.

Table of Contents

Table 8.2 — Debt Securities of Consolidated Trusts Held by Third Parties

	September 30, 2015				December 31, 2014			
	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon ⁽¹⁾	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon ⁽¹⁾
	(dollars in millions)				(dollars in millions)			
Single-family:								
30-year or more, fixed-rate ⁽²⁾	2015 - 2053	\$1,071,730	\$1,103,502	3.91 %	2015 - 2053	\$1,018,357	\$1,047,302	4.04 %
20-year fixed-rate	2015 - 2035	73,369	75,611	3.63	2015 - 2035	71,545	73,764	3.74
15-year fixed-rate	2015 - 2030	271,722	278,285	3.03	2015 - 2030	266,117	272,538	3.13
Adjustable-rate	2015 - 2047	62,327	63,735	2.60	2015 - 2047	65,082	66,518	2.62
Interest-only	2026 - 2041	14,967	15,028	3.16	2026 - 2041	17,474	17,524	3.29
FHA/VA	2016 - 2044	1,040	1,060	5.39	2015 - 2044	1,226	1,250	5.42
Total single-family		1,495,155	1,537,221			1,439,801	1,478,896	
Multifamily ⁽²⁾	2017 - 2028	1,737	1,887	4.78	2017 - 2019	524	577	4.93
Total debt securities of consolidated trusts held by third parties		\$1,496,892	\$1,539,108			\$1,440,325	\$1,479,473	

(1) The effective rate for debt securities of consolidated trusts held by third parties was 3.01% and 3.19% as of September 30, 2015 and December 31, 2014, respectively.

(2) Carrying amount includes securities recorded at fair value.

NOTE 9: DERIVATIVES

Use of Derivatives

We use derivatives primarily to manage the interest rate risk associated with our investments in financial assets and related liabilities. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

We classify derivatives into three categories: (a) exchange-traded derivatives; (b) cleared derivatives; and (c) OTC derivatives. Exchange-traded derivatives include standardized interest-rate futures contracts and options on futures contracts. Cleared derivatives refer to those interest-rate swaps that the U.S. Commodity Futures Trading Commission has determined are subject to the central clearing requirement of the Dodd-Frank Act. OTC derivatives refer to those derivatives that are neither exchange-traded derivatives nor cleared derivatives.

Types of Derivatives

We principally use the following types of derivatives:

- LIBOR-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions); and
- LIBOR- and Treasury-based exchange-traded futures.

In addition to swaps, futures, and purchased options, our derivative positions include written options and swaptions, commitments, swap guarantees, and credit derivatives.

For a discussion of our significant accounting policies related to derivatives, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Derivatives” in our 2014 Annual Report.

Table of Contents

Derivative Assets and Liabilities at Fair Value

The table below presents the notional value and fair value of derivatives reported on our consolidated balance sheets.

Table 9.1 — Derivative Assets and Liabilities at Fair Value

	September 30, 2015			December 31, 2014		
	Notional or Contractual Amount (in millions)	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities	Notional or Contractual Amount	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities
Total derivative portfolio						
Interest-rate swaps:						
Receive-fixed	\$210,020	\$5,605	\$(21)	\$205,219	\$5,243	\$(487)
Pay-fixed	213,522	22	(14,829)	213,325	408	(12,829)
Basis (floating to floating)	300	2	—	300	2	—
Total interest-rate swaps	423,842	5,629	(14,850)	418,844	5,653	(13,316)
Option-based:						
Call swaptions						
Purchased	50,375	3,693	—	56,390	3,315	—
Written	3,875	—	(130)	10,660	—	(90)
Put Swaptions						
Purchased	17,800	335	—	22,125	179	—
Written	8,775	—	(13)	3,560	—	(9)
Other option-based derivatives ⁽¹⁾	12,610	813	—	19,733	730	(28)
Total option-based	93,435	4,841	(143)	112,468	4,224	(127)
Futures	65,000	—	—	40,263	—	—
Commitments	53,625	103	(178)	27,054	40	(79)
Credit derivatives	4,714	19	(10)	5,207	27	(11)
Swap guarantee derivatives	3,081	—	(25)	3,204	—	(27)
Total derivatives not designated as hedging instruments	643,697	10,592	(15,206)	607,040	9,944	(13,560)
Derivative interest receivable (payable)		822	(1,429)		817	(1,500)
Netting adjustments ⁽²⁾		(10,809)	14,965		(9,939)	13,097
Total derivative portfolio, net	\$643,697	\$605	\$(1,670)	\$607,040	\$822	\$(1,963)

(1) Primarily includes purchased interest-rate caps and floors and options on Treasury futures.

(2) Represents counterparty netting and cash collateral netting. Net cash collateral posted was \$4.2 billion and \$3.2 billion at September 30, 2015 and December 31, 2014, respectively.

The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable and net trade/settle receivable or payable, and is net of cash collateral held or posted, where allowable. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net.

See “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES” for information related to our derivative counterparties and collateral held and posted.

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives, including the accrual of periodic cash settlements, reported in our consolidated statements of comprehensive income as derivative gains (losses).

Table of Contents

Table 9.2 — Gains and Losses on Derivatives

	Derivative Gains (Losses)			
	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(in millions)			
Interest-rate swaps:				
Receive-fixed	\$1,845	\$(751)	) \$1,563	\$2,300
Pay-fixed	(6,538)	) 568	(4,076)	) (5,804)
Basis (floating to floating)	—	(1)	) (1)	) (1)
Total interest-rate swaps	(4,693)	) (184)	) (2,514)	) (3,505)
Option based:				
Call swaptions				
Purchased	1,293	99	795	1,172
Written	(49)	) 7	(40)	) (145)
Put swaptions				
Purchased	(259)	) (41)	) (194)	) (817)
Written	47	—	70	—
Other option-based derivatives ⁽¹⁾	139	13	91	134
Total option-based	1,171	78	722	344
Futures	(2)	) (3)	) (13)	) (43)
Commitments	(114)	) 100	40	296
Credit derivatives	2	19	(36)	) (9)
Swap guarantee derivatives	1	1	5	6
Other	(1)	) (1)	) (5)	) (9)
Subtotal	(3,636)	) 10	(1,801)	) (2,920)
Accrual of periodic settlements:				
Receive-fixed interest-rate swaps	647	726	1,948	2,343
Pay-fixed interest-rate swaps	(1,183)	) (1,354)	) (3,588)	) (4,319)
Other	—	1	1	2
Total accrual of periodic settlements	(536)	) (627)	) (1,639)	) (1,974)
Total	\$(4,172)	) \$(617)	) \$(3,440)	) \$(4,894)

(1) Primarily includes purchased interest-rate caps and floors and options on Treasury futures.

Hedge Designation of Derivatives

As of September 30, 2015 and December 31, 2014, we did not have any derivatives in hedge accounting relationships; however, there are deferred net losses recorded in AOCI related to closed cash flow hedges. See “NOTE 11: STOCKHOLDERS’ EQUITY — Accumulated Other Comprehensive Income — Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges” for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES

Derivative Portfolio

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and variation margin in connection with cleared and exchange-traded derivatives, such as cleared interest-rate swaps and futures contracts, exposes us to institutional credit risk in the event that our clearing members or the financial clearinghouses fail to meet their obligations. The use of cleared and exchange-traded derivatives decreases our credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. However, our exposure to the clearinghouses and clearing

members that administer our cleared transactions has increased and may become more concentrated over time. OTC derivatives expose us to the credit risk of individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its obligations. Our use of interest rate swaps and option-based derivatives is subject to internal credit and legal reviews. On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties, clearinghouses, and clearing members to confirm that they continue to meet our internal risk management standards.

Table of Contents

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty's derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted.

Collateral posted by a derivative counterparty is typically in the form of cash, although U.S. Treasury securities and Freddie Mac mortgage-related securities may also be posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to direct the custodian bank to transfer the collateral to us or to sell the collateral and transfer the proceeds to us. As of September 30, 2015 and December 31, 2014, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable.

Our net uncollateralized exposure to derivative counterparties for OTC interest-rate swap and option-based derivatives was \$41 million and \$174 million as of September 30, 2015 and December 31, 2014, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on September 30, 2015, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$41 million. Three counterparties each accounted for greater than 10% and collectively accounted for 88% of our net uncollateralized exposure to derivative counterparties, excluding cleared and exchange-traded derivatives, commitments, swap guarantee derivatives, certain written options, and certain credit derivatives as of September 30, 2015. All three of these counterparties, JP Morgan Chase Bank, N.A., Societe Generale, and Barclays Bank PLC, were rated "A-" or above using the lower of S&P's or Moody's rating stated in terms of the S&P equivalent as of September 30, 2015.

Beginning with contracts executed or modified on or after June 10, 2013, the types of interest-rate swaps that we use most frequently became subject to the central clearing requirement. We post initial and variation margin in connection with our cleared and exchange-traded derivatives. Our exposure to cleared and exchange-traded derivatives was \$154 million and \$128 million as of September 30, 2015 and December 31, 2014, respectively, which includes consideration of the cash collateral that has been posted for initial and variation margin. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. For information about margin we have posted in connection with cleared and exchange-traded derivatives, see "— Collateral Pledged."

The table below displays information related to derivatives and securities purchased under agreements to resell on our consolidated balance sheets.

Table of Contents

Table 10.1 — Offsetting of Financial Assets and Liabilities

September 30, 2015					
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets ⁽¹⁾	Gross Amount Not Offset in the Consolidated Balance Sheets ⁽²⁾	Net Amount
(in millions)					
Assets:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	\$9,390	\$ (9,061)	) \$ 329	\$ (288)	) \$ 41
Cleared and exchange-traded derivatives	1,902	(1,748)	) 154	—	154
Other	122	—	122	—	122
Total derivatives	11,414	(10,809)	) 605	(288)	) 317
Securities purchased under agreements to resell	38,738	—	38,738	(38,738)) —
Total	\$ 50,152	\$ (10,809)	) \$ 39,343	\$ (39,026)	) \$ 317
Liabilities:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	\$(10,254)	) \$ 8,798	\$ (1,456)	) \$ 1,411	\$ (45)
Cleared and exchange-traded derivatives	(6,168)	) 6,167	(1)	) —	(1)
Other	(213)	) —	(213)	) —	(213)
Total	\$(16,635)	) \$ 14,965	\$ (1,670)	) \$ 1,411	\$ (259)
December 31, 2014					
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets ⁽¹⁾	Gross Amount Not Offset in the Consolidated Balance Sheets ⁽²⁾	Net Amount
(in millions)					
Assets:					
Derivatives:					
Over-the-counter interest-rate and option-based derivatives	\$ 10,315	\$ (9,688)	) \$ 627	\$ (453)	) \$ 174
Cleared and exchange-traded derivatives	379	(251)	) 128	—	128
Other	67	—	67	—	67
Total derivatives	10,761	(9,939)	) 822	(453)	) 369
Securities purchased under agreements to resell	51,903	—	51,903	(51,903)) —
Total	\$ 62,664	\$ (9,939)	) \$ 52,725	\$ (52,356)	) \$ 369
Liabilities:					
Derivatives:					
	\$(10,666)	) \$ 8,845	\$ (1,821)	) \$ 1,743	\$ (78)

Over-the-counter interest-rate and option-based derivatives

Cleared and exchange-traded derivatives	(4,277)	4,252	(25)	—	(25)
Other	(117)	—	(117)	—	(117)
Total	\$(15,060)	\$ 13,097	\$ (1,963)	\$ 1,743	\$(220)

(1) For derivatives, includes cash collateral posted or held in excess of exposure.

Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of \$2.8 billion and \$2.3 billion as of September 30, 2015 and December 31, 2014, respectively.

Collateral Pledged

Collateral Pledged to Freddie Mac

We had cash and cash equivalents pledged to us related to OTC derivative instruments of \$1.2 billion and \$2.1 billion as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015 and December 31, 2014, we had \$288 million and \$453 million, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had \$1 million and \$0 million of cash pledged to us related to cleared derivatives as of September 30, 2015 and December 31, 2014, respectively.

Also, as of September 30, 2015 and December 31, 2014, we had \$176 million and \$0 million, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From

Table of Contents

time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase mortgage loans sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

We did not hold any federal funds sold as of September 30, 2015 and December 31, 2014.

Collateral Pledged by Freddie Mac

We are required to pledge collateral for margin requirements with third-party custodians in connection with secured financings and derivative transactions with some counterparties. The amount of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating.

The aggregate fair value of all OTC derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2015, was \$2.4 billion for which we posted cash and non-cash collateral of \$2.4 billion in the normal course of business. Since we were fully collateralized as of September 30, 2015, we would not have been required to post additional collateral on that day if the credit-risk-related contingent features underlying these agreements were triggered.

We also execute forward purchase and sale commitments of mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes and utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation (“MBSD/FICC”) as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization. In the event a clearing member fails and causes losses to the MBSD/FICC clearing system, we could be subject to the loss of any or all of the margin that we have posted to the MBSD/FICC. Moreover, our exposure could exceed that amount, as members are generally required to guarantee the performance of other members on a pro rata basis. It is difficult to estimate our maximum exposure under these transactions, as this would require an assessment of transactions that we and other members of the MBSD/FICC may execute in the future.

The table below summarizes all securities pledged as collateral by us, including assets that the secured party may repledge.

Table 10.2 — Collateral in the Form of Securities Pledged

	September 30, 2015	December 31, 2014
	(in millions)	
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties ⁽¹⁾	\$ 1,832	\$ 2,539
Available-for-sale securities	—	9
Trading securities	2,455	1,884
Total securities pledged	\$ 4,287	\$ 4,432

Represents PCs held by us in our Investments segment mortgage investments portfolio and pledged as collateral (1) which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

Securities Pledged with the Ability of the Secured Party to Repledge

As of September 30, 2015, we pledged securities with the ability of the secured party to repledge of \$4.3 billion in connection with derivatives and securities transactions.

As of December 31, 2014, we pledged securities with the ability of the secured party to repledge of \$4.4 billion in connection with derivatives and securities transactions.

Cash Pledged

As of September 30, 2015, we pledged \$5.7 billion of collateral in the form of cash and cash equivalents, of which \$1.0 billion related to our OTC derivative agreements as we had \$2.4 billion of such derivatives in a net loss position. The remaining \$4.7 billion of cash and cash equivalents was posted at clearing members or clearinghouses in connection with derivatives and securities transactions as of September 30, 2015.

As of December 31, 2014, we pledged \$5.4 billion of collateral in the form of cash and cash equivalents, of which \$1.2 billion related to our OTC derivative agreements as we had \$3.0 billion of such derivatives in a net loss position.

The remaining \$4.2 billion of cash and cash equivalents was posted at clearing members or clearinghouses in connection with derivatives and securities transactions as of December 31, 2014.

NOTE 11: STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income

The table below presents changes in AOCI after the effects of our 35% federal statutory tax rate related to available-for-sale securities, closed cash flow hedges, and our defined benefit plans.

Table of Contents

Table 11.1 — Changes in AOCI by Component, Net of Tax

	Nine Months Ended September 30, 2015			
	AOCI Related to Available-For-Sale Securities (in millions)	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$2,546	\$(803)	\$(13)	\$1,730
Other comprehensive income before reclassifications ⁽¹⁾	373	—	27	400
Amounts reclassified from accumulated other comprehensive income	(591)	132	(1)	(460)
Changes in AOCI by component	(218)	132	26	(60)
Ending balance	\$2,328	\$(671)	\$13	\$1,670

	Nine Months Ended September 30, 2014			
	AOCI Related to Available-For-Sale Securities (in millions)	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$962	\$(1,000)	\$32	\$(6)
Other comprehensive income before reclassifications ⁽¹⁾	1,903	—	1	1,904
Amounts reclassified from accumulated other comprehensive income	(341)	151	(2)	(192)
Changes in AOCI by component	1,562	151	(1)	1,712
Ending balance	\$2,524	\$(849)	\$31	\$1,706

⁽¹⁾ For the nine months ended September 30, 2015 and the nine months ended September 30, 2014, net of tax expense of \$0.2 billion and \$1.0 billion, respectively, for AOCI related to available-for-sale securities.

Reclassifications from AOCI to Net Income

The table below presents reclassifications from AOCI to net income, including the affected line item in our consolidated statements of comprehensive income.

Table 11.2 — Reclassifications from AOCI to Net Income

Details about Accumulated Other Comprehensive Income Components	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Consolidated Statements of Comprehensive Income
	2015	2014	2015	2014	
AOCI related to available-for-sale securities	\$312	\$107	\$1,154	\$1,212	Other gains (losses) on investment securities recognized in earnings
	(54)	(166)	(245)	(687)	Net impairment of available-for-sale securities recognized in earnings
	258	(59)	909	525	Total before tax
	(89)	21	(318)	(184)	Tax (expense) or benefit
	169	(38)	591	341	Net of tax
AOCI related to cash flow hedge relationships					

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	—	(1) (1) (2) Interest expense — Other debt
	(53) (75) (176) (230) Expense related to derivatives
	(53	) (76	) (177	) (232	) Total before tax
	18	26	45	81	Tax (expense) or benefit
	(35	) (50	) (132	) (151	) Net of tax
AOCI related to defined benefit plans					
	1	1	1	3	Salaries and employee benefits
	—	—	—	(1	) Tax (expense) or benefit
	1	1	1	2	Net of tax
Total reclassifications in the period	\$135	\$(87	) \$460	\$192	Net of tax

Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges

As shown in “Table 11.1 — Changes in AOCI by Component, Net of Tax,” the total AOCI related to derivatives designated as cash flow hedges was a loss of \$0.7 billion and \$0.8 billion at September 30, 2015 and September 30, 2014, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that

Table of Contents

have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately \$146 million, net of taxes, of the \$0.7 billion of cash flow hedge losses in AOCI at September 30, 2015 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 18 years.

Senior Preferred Stock

No cash was received from Treasury under the Purchase Agreement during the three months ended September 30, 2015, because we had positive net worth at June 30, 2015 and, consequently, FHFA did not request a draw on our behalf. At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Our quarterly senior preferred stock dividend is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds the applicable Capital Reserve Amount, which was established at \$3 billion for 2013 and declines to zero in 2018. Because on our Net Worth Amount at September 30, 2015 was below the Capital Reserve Amount of \$1.8 billion in 2015, we will not have a dividend obligation under the Purchase Agreement in December 2015. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Government Support for our Business" for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was \$72.3 billion as of both September 30, 2015 and December 31, 2014. See "NOTE 18: REGULATORY CAPITAL" for additional information.

Stock-Based Compensation

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during the three and nine months ended September 30, 2015, except for issuances of treasury stock relating to stock-based compensation granted prior to conservatorship.

For purposes of the earnings-per-share calculation, all stock options outstanding at September 30, 2015 and September 30, 2014 were out of the money and excluded from the computation of dilutive potential common shares during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, respectively. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement.

Dividends Declared

No common stock dividends were declared during the nine months ended September 30, 2015. During the three months ended March 31, 2015, June 30, 2015, and September 30, 2015, we paid dividends of \$0.9 billion, \$0.7 billion, and \$3.9 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during the nine months ended September 30, 2015.

NOTE 12: INCOME TAXES**Income Tax Benefit (Expense)**

For the three months ended September 30, 2015 and the three months ended September 30, 2014, we reported an income tax benefit (expense) of \$0.2 billion and \$(1.0) billion, respectively, resulting in effective tax rates of 29.0% and 31.5%, respectively. For the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we reported an income tax benefit (expense) of \$(2.0) billion and \$(3.4) billion, respectively, resulting in effective tax rates of 31.9% and 31.1%, respectively. Our effective tax rate differed from the statutory rate of 35% in these periods primarily due to our recognition of low income housing tax credits.

For a discussion of our significant accounting policies related to income taxes, please see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 12: INCOME TAXES" in our 2014 Annual Report.

Deferred Tax Assets, Net

We had net deferred tax assets of \$17.8 billion and \$19.5 billion as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, our net deferred tax assets consisted primarily of basis differences related to derivative instruments and deferred fees.

Based on all positive and negative evidence available at September 30, 2015, we determined that it is more likely than not that our net deferred tax assets will be realized. Therefore, a valuation allowance was not necessary.

Table of Contents

Unrecognized Tax Benefits and IRS Examinations

We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of September 30, 2015.

A final decision related to our tax accounting method for certain hedging transactions for years 1998-2010 was entered in U.S. Tax Court in June 2015.

NOTE 13: SEGMENT REPORTING

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” for additional information about the conservatorship.

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income and allocating certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business solely in the U.S. and its territories. Therefore, we do not generate any revenue from and do not have any long-lived assets other than financial instruments in geographic locations outside of the U.S. and its territories.

Segments

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily.

Segment Earnings

The financial performance of our Single-family Guarantee segment is measured based on its contribution to GAAP net income (loss). Our Investments segment and Multifamily segment are measured based on each segment's contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to GAAP net income (loss) and GAAP total other comprehensive income (loss), net of taxes. Taxes for the reportable segments are generally calculated by applying our corporate annual effective tax rate to each segment's pre-tax income.

In the second quarter of 2015, we changed our Segment Earnings definition associated with the revenue and expense related to the Temporary Payroll Tax Cut Continuation Act of 2011. As a result of this change, the revenue and expense related to the legislated 10 basis point increase in management and guarantee fee income are now netted within the Single-family Guarantee segment. The purpose of this change is to better reflect how management evaluates the Single-family Guarantee segment. Prior period results have been revised to conform with the current period presentation. We reclassified \$198 million and \$563 million of Temporary Payroll Tax Cut Continuation Act of 2011 expense into management and guarantee income for the three and nine months ended September 30, 2014, respectively.

The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss). However, the accounting principles we apply to present certain financial statement line items in Segment Earnings for our reportable segments, in particular Segment Earnings management and guarantee income and net interest income, differ significantly from those applied in preparing the comparable line items in our consolidated financial statements prepared in accordance with GAAP. Accordingly, the results of such line items should not be used as a substitute for the comparable line items as determined in accordance with GAAP.

Segment Adjustments

In presenting Segment Earnings management and guarantee income and net interest income, we make adjustments to better reflect how management measures and assesses the performance of each segment and the company as a whole. These adjustments relate to amounts that are not reflected in net income (loss) as determined in accordance with GAAP. These adjustments are reversed through the segment adjustments line item within Segment Earnings, so that Segment Earnings (loss) for each segment equals GAAP net income (loss) for each segment. Segment adjustments consist of the following:

• We adjust our Segment Earnings management and guarantee income for the Single-family Guarantee segment to include the amortization of buy-down fees and credit delivery fees recorded in periods prior to the January 1, 2010

adoption of accounting guidance for the transfers of financial assets and the consolidation of VIEs. As of September 30, 2015, the unamortized balance of buy-down fees was \$0.2 billion and the unamortized balance of credit delivery fees was \$0.6 billion. We consider such fees to be part of the effective rate of the management and guarantee fee income on guaranteed mortgage loans. These adjustments are necessary to better reflect the realization of revenue associated with guarantee contracts over the life of the underlying loans.

We adjust our Segment Earnings net interest income for the Investments segment to include the amortization of cash premiums and discounts, as well as buy-up fees, on the consolidated Freddie Mac mortgage-related securities we

Table of Contents

purchase as investments. As of September 30, 2015, the unamortized balance of such premiums and discounts, net was \$3.8 billion and the unamortized balance of buy-up fees was \$0.3 billion. These adjustments are necessary to reflect the effective yield realized on investments in consolidated Freddie Mac mortgage-related securities purchased at a premium or discount or with buy-up fees.

The table below presents Segment Earnings by segment.

Table 13.1 — Summary of Segment Earnings (Loss) and Comprehensive Income (Loss)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in millions)			
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	\$591	\$196	\$1,140	\$1,077
Investments	(963	) 1,440	2,424	5,060
Multifamily	(103	) 445	654	1,339
All Other	—	—	—	(13
Total Segment Earnings (loss), net of taxes	(475	) 2,081	4,218	7,463
Net income (loss)	\$(475	) \$2,081	\$4,218	\$7,463
Comprehensive income (loss) of segments:				
Single-family Guarantee	\$591	\$195	\$1,139	\$1,076
Investments	(1,008	) 2,259	2,446	6,953
Multifamily	(84	) 332	546	1,159
All Other	—	—	27	(13
Comprehensive income (loss) of segments	(501	) 2,786	4,158	9,175
Comprehensive income (loss)	\$(501	) \$2,786	\$4,158	\$9,175

The table below presents detailed reconciliations between our GAAP financial statements and Segment Earnings by financial statement line item for our reportable segments and All Other.

Table of Contents

Table 13.2 — Segment Earnings (Loss) and Reconciliation to GAAP Results

Three Months Ended September 30, 2015

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	\$52	\$ 394	\$ 148	\$—	\$ 594	\$2,944	\$ 205	\$ 3,149	\$ 3,743
Benefit for credit losses	360	—	—	—	360	168	—	168	528
Non-interest income (loss):									
Management and guarantee income ⁽¹⁾	1,345	—	87	—	1,432	(1,280)	(62)	(1,342)	90
Net impairment of available-for-sale securities recognized in earnings	—	108	4	—	112	(166)	—	(166)	(54)
Derivative gains (losses)	2	(2,950)	(502)	—	(3,450)	(722)	—	(722)	(4,172)
Gains (losses) on trading securities	—	(103)	47	—	(56)	—	—	—	(56)
Gains (losses) on mortgage loans	(319)	—	122	—	(197)	—	—	—	(197)
Other non-interest income (loss)	175	1,028	41	—	1,244	(696)	—	(696)	548
Non-interest expense:									
Administrative expenses	(309)	(76)	(80)	—	(465)	—	—	—	(465)
REO operations expense	(116)	—	—	—	(116)	—	—	—	(116)
Other non-interest expense	(257)	—	(13)	—	(270)	(248)	—	(248)	(518)
Segment adjustments	(62)	205	—	—	143	—	(143)	(143)	—
Income tax (expense) benefit	(280)	431	43	—	194	—	—	—	194
Net income (loss)	591	(963)	(103)	—	(475)	—	—	—	(475)
Changes in unrealized gains (losses) related to available-for-sale securities	—	(80)	19	—	(61)	—	—	—	(61)
Changes in unrealized gains	—	35	—	—	35	—	—	—	35

(losses) related to cash flow hedge relationships									
Changes in defined benefit plans	—	—	—	—	—	—	—	—	—
Total other comprehensive income (loss), net of taxes	—	(45)	19	—	(26)	—	—	—	(26)
Comprehensive income (loss)	\$591	\$ (1,008)	\$ (84)	\$—	\$ (501)	\$—	\$—	\$—	\$ (501)

Table of Contents

Nine Months Ended September 30, 2015

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	\$(59)	\$ 1,479	\$ 671	\$—	\$ 2,091	\$8,666	\$ 602	\$ 9,268	\$ 11,359
Benefit for credit losses	1,335	—	20	—	1,355	529	—	529	1,884
Non-interest income (loss):									
Management and guarantee income ⁽¹⁾	4,066	—	239	—	4,305	(3,834)	(202)	(4,036)	269
Net impairment of available-for-sale securities recognized in earnings	—	322	(22)	—	300	(545)	—	(545)	(245)
Derivative gains (losses)	(36)	(1,221)	7	—	(1,250)	(2,190)	—	(2,190)	(3,440)
Gains (losses) on trading securities	—	(329)	—	—	(329)	—	—	—	(329)
Gains (losses) on mortgage loans	(1,537)	—	216	—	(1,321)	—	—	—	(1,321)
Other non-interest income	485	2,949	106	—	3,540	(1,921)	—	(1,921)	1,619
Non-interest expense:									
Administrative expense	(938)	(239)	(240)	—	(1,417)	—	—	—	(1,417)
REO operations expense	(243)	—	—	—	(243)	—	—	—	(243)
Other non-interest expense	(1,196)	(2)	(36)	—	(1,234)	(705)	—	(705)	(1,939)
Segment adjustments	(202)	602	—	—	400	—	(400)	(400)	—
Income tax expense	(535)	(1,137)	(307)	—	(1,979)	—	—	—	(1,979)
Net income	1,140	2,424	654	—	4,218	—	—	—	4,218
Changes in unrealized gains (losses) related to available-for-sale securities	—	(110)	(108)	—	(218)	—	—	—	(218)
Changes in unrealized gains (losses) related to cash flow hedge	—	132	—	—	132	—	—	—	132

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relationships												
Changes in defined benefit plans	(1)	—	—	27	26	—	—	—	26		
Total other comprehensive income (loss), net of taxes	(1)	22	(108)	27	(60)	—	—	(60)
Comprehensive income	\$1,139	\$2,446	\$546	\$27	\$4,158	\$—	\$—	\$—	\$4,158			

Table of Contents

Three Months Ended September 30, 2014

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	\$ 19	\$ 762	\$ 240	\$—	\$ 1,021	\$2,474	\$ 168	\$ 2,642	\$ 3,663
(Provision) benefit for credit losses	(818)	—	10	—	(808)	234	—	234	(574)
Non-interest income (loss):									
Management and guarantee income ⁽¹⁾	1,143	—	65	—	1,208	(1,049)	(75)	(1,124)	84
Net impairment of available-for-sale securities recognized in earnings	—	37	—	—	37	(203)	—	(203)	(166)
Derivative gains (losses)	19	(133)	310	—	196	(813)	—	(813)	(617)
Gains (losses) on trading securities	—	(202)	(14)	—	(216)	—	—	—	(216)
Gains (losses) on mortgage loans	52	—	116	—	168	—	—	—	168
Other non-interest income	351	1,594	11	—	1,956	(445)	—	(445)	1,511
Non-interest expense:									
Administrative expenses	(302)	(104)	(66)	—	(472)	—	—	—	(472)
REO operations income (expense)	(109)	—	6	—	(103)	—	—	—	(103)
Other non-interest expense	(40)	—	(3)	—	(43)	(198)	—	(198)	(241)
Segment adjustments	(75)	168	—	—	93	—	(93)	(93)	—
Income tax expense	(44)	(682)	(230)	—	(956)	—	—	—	(956)
Net income	196	1,440	445	—	2,081	—	—	—	2,081
Changes in unrealized gains (losses) related to available-for-sale securities	—	769	(113)	—	656	—	—	—	656
Changes in unrealized gains (losses) related to cash flow hedge	—	50	—	—	50	—	—	—	50

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relationships								
Changes in defined benefit plans	(1)	—	—	(1)	—	—	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	819	(113)	—	705	—	—	705
Comprehensive income	\$ 195	\$ 2,259	\$ 332	\$—	\$ 2,786	\$—	\$—	\$ 2,786

Table of Contents

Nine Months Ended September 30, 2014

	Single-family Guarantee	Investment	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
(in millions)									
Net interest income	\$(27)	\$ 2,324	\$ 705	\$—	\$ 3,002	\$7,206	\$ 468	\$ 7,674	\$ 10,676
(Provision) benefit for credit losses	(742)	—	52	—	(690)	649	—	649	(41)
Non-interest income (loss):									
Management and guarantee income ⁽¹⁾	3,201	—	186	—	3,387	(2,910)	(233)	(3,143)	244
Net impairment of available-for-sale securities recognized in earnings	—	(95)	—	—	(95)	(592)	—	(592)	(687)
Derivative gains (losses)	(9)	(2,745)	507	—	(2,247)	(2,647)	—	(2,647)	(4,894)
Gains (losses) on trading securities	—	(243)	60	—	(183)	—	—	—	(183)
Gains (losses) on mortgage loans	(143)	—	526	—	383	—	—	—	383
Other non-interest income	602	8,004	143	—	8,749	(1,143)	—	(1,143)	7,606
Non-interest expense:									
Administrative expense	(855)	(339)	(199)	—	(1,393)	—	—	—	(1,393)
REO operations income (expense)	(120)	—	8	—	(112)	—	—	—	(112)
Other non-interest expense	(159)	(6)	(16)	(18)	(199)	(563)	—	(563)	(762)
Segment adjustments	(233)	468	—	—	235	—	(235)	(235)	—
Income tax (expense) benefit	(438)	(2,308)	(633)	5	(3,374)	—	—	—	(3,374)
Net income (loss)	1,077	5,060	1,339	(13)	7,463	—	—	—	7,463
Changes in unrealized gains (losses) related to available-for-sale securities	—	1,742	(180)	—	1,562	—	—	—	1,562
Changes in unrealized gains (losses) related to	—	151	—	—	151	—	—	—	151

cash flow hedge relationships									
Changes in defined benefit plans	(1)	—	—	—	(1)	—	—	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	1,893	(180)	—	1,712	—	—	—	1,712
Comprehensive income	\$1,076	\$ 6,953	\$ 1,159	\$(13)	\$ 9,175	\$—	\$—	\$—	\$ 9,175

(1) Management and guarantee income is included in other income on our GAAP consolidated statements of comprehensive income.

NOTE 14: FINANCIAL GUARANTEES

We provide financial guarantees to securitization trusts that issue mortgage-related securities backed by single-family mortgage loans, which we consolidate. During the three and nine months ended September 30, 2015, we issued approximately \$97.5 billion and \$277.5 billion, respectively, compared to \$77.4 billion and \$186.9 billion during the three and nine months ended September 30, 2014, respectively, in UPB of Freddie Mac mortgage-related securities backed by single-family mortgage loans (excluding those backed by HFA bonds). Our exposure for guarantees to consolidated securitization trusts is generally the UPB of the mortgage loans recorded on our consolidated balance sheets.

We also provide guarantees to non-consolidated securitization trusts that issue mortgage-related securities as well as in other guarantee commitments. If we are exposed to incremental credit risk by providing these guarantees, we charge a management and guarantee fee and recognize a guarantee asset, guarantee obligation, and a reserve for guarantee losses, as necessary.

The table below presents our maximum potential exposure, our recognized liability, and the maximum remaining term of our financial guarantees that are not consolidated on our balance sheets.

Table of Contents

Table 14.1 — Financial Guarantees

	September 30, 2015			December 31, 2014		
	Maximum Exposure ⁽¹⁾	Recognized Liability ⁽²⁾	Maximum Remaining Term	Maximum Exposure ⁽¹⁾	Recognized Liability ⁽²⁾	Maximum Remaining Term
	(dollars in millions, terms in years)					
Non-consolidated Freddie Mac securities	\$ 102,527	\$ 1,013	40	\$ 87,529	\$ 861	39
Other guarantee commitments	12,551	576	39	26,147	772	39
Derivative instruments	15,609	168	30	21,336	154	31

The maximum exposure represents the contractual amounts that could be lost if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. The maximum exposure disclosed (1) above is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation. The maximum exposure for our liquidity guarantees is not mutually exclusive of our default guarantees on the same securities; therefore, these amounts are included within the maximum exposure of non-consolidated Freddie Mac securities and other guarantee commitments.

For non-consolidated Freddie Mac securities and other guarantee commitments, this amount represents the (2) guarantee obligation on our consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled \$86 million and \$126 million as of September 30, 2015 and December 31, 2014, respectively, and is included within other liabilities on our consolidated balance sheets.

Non-Consolidated Freddie Mac Securities

During the three and nine months ended September 30, 2015, we issued approximately \$5.3 billion and \$18.2 billion, respectively, compared to \$3.9 billion and \$11.0 billion during the three and nine months ended September 30, 2014, respectively, in UPB of Other Guarantee Transactions, all of which were backed by multifamily mortgage loans, for which a guarantee asset and guarantee obligation were recognized.

For many of the mortgage loans underlying our non-consolidated guarantees, there are credit protections from third parties, including subordination, covering a portion of our exposure. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for information about credit protections on mortgage loans we guarantee.

Other Guarantee Commitments

We provide long-term standby commitments to certain of our customers, which obligate us to purchase seriously delinquent mortgage loans that are covered by those agreements. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we issued and guaranteed \$3.3 billion and \$2.1 billion, respectively, in UPB of long-term standby commitments. These long-term standby commitments totaled \$3.0 billion and \$16.5 billion in UPB at September 30, 2015 and December 31, 2014, respectively. Periodically, a customer may seek to terminate long-term standby commitments and simultaneously enter into guarantor swap transactions to obtain our PCs backed by many of the same mortgage loans.

We also had other guarantee commitments on multifamily housing revenue bonds that were issued by HFAs of \$9.6 billion and \$9.3 billion in UPB at September 30, 2015 and December 31, 2014, respectively. In addition, as of December 31, 2014, we had issued guarantees under the TCLFP on securities backed by HFA bonds with UPB of \$0.4 billion. We did not have any issued guarantees under the TCLFP on securities backed by HFA bonds as of September 30, 2015.

Liquidity Guarantees

No advances under our liquidity guarantees were outstanding at both September 30, 2015 and December 31, 2014.

NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS**Single-Family Credit Guarantee Portfolio**

The table below summarizes the concentration by year of origination and geographic area of the approximately \$1.7 trillion in UPB of our single-family credit guarantee portfolio at both September 30, 2015 and December 31, 2014.

See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in our 2014 Annual Report and “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” and “NOTE 7: INVESTMENTS IN SECURITIES” for more information about credit risk associated with mortgage loans and mortgage-related securities that we hold or guarantee.

Table of Contents

Table 15.1 — Concentration of Credit Risk — Single-Family Credit Guarantee Portfolio

Year of Origination	September 30, 2015		December 31, 2014		Percent of Credit Losses Nine Months Ended		
	Percentage of Portfolio ⁽¹⁾	Serious Delinquency Rate	Percentage of Portfolio ⁽¹⁾	Serious Delinquency Rate	September 30, 2015	September 30, 2014	
2015	12	% —	% N/A	N/A	—	% N/A	
2014	11	0.07	12	% 0.02	% —	—	%
2013	14	0.10	16	0.06	—	—	
2012	13	0.09	14	0.09	—	—	
2011	5	0.26	6	0.26	—	—	
2010	5	0.46	6	0.46	1	—	
2009	5	0.87	6	0.92	2	2	
Subtotal - New single-family book	65	0.20	60	0.24	3	2	
HARP and other relief refinance mortgage loans ⁽¹⁾	18	0.70	20	0.75	7	7	
2005 to 2008 Legacy single-family book	11	6.26	13	7.59	80	83	
Pre-2005 Legacy single-family book	6	2.64	7	3.10	10	8	
Total	100	% 1.41	% 100	% 1.88	% 100	% 100	%
Region ⁽²⁾							
West	29	% 0.86	% 29	% 1.23	% 13	% 13	%
Northeast	26	2.20	26	2.81	43	26	
North Central	17	1.18	17	1.48	16	21	
Southeast	16	1.69	16	2.40	25	36	
Southwest	12	0.91	12	1.16	3	4	
Total	100	% 1.41	% 100	% 1.88	% 100	% 100	%
State							
Arizona, California, Florida, and Nevada ⁽³⁾	26	% 1.25	% 26	% 1.91	% 27	% 37	%
Illinois, Michigan, and Ohio ⁽⁴⁾	10	1.36	10	1.70	13	17	
New York and New Jersey ⁽⁵⁾	9	3.63	9	4.62	28	10	
All other	55	1.18	55	1.53	32	36	
Total	100	% 1.41	% 100	% 1.88	% 100	% 100	%

HARP and other relief refinance mortgage loans are presented separately rather than in the year that the (1) refinancing occurred (from 2009 to 2015). All other refinance mortgage loans are presented in the year that the refinancing occurred.

Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, (2) MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(3) Represents the four states that had the largest cumulative declines in home prices during the housing crisis that began in 2006, as measured using Freddie Mac's home price index.

(4) Represents selected states in the North Central region that have experienced adverse economic conditions since 2006.

(5)

Represents two states with a judicial foreclosure process in which there are a significant number of seriously delinquent mortgage loans within our single-family credit guarantee portfolio.

Credit Performance of Certain Higher Risk Single-Family Mortgage Loan Categories

Participants in the mortgage loan market often characterize single-family mortgage loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Many mortgage loan market participants classify single-family mortgage loans with credit characteristics that range between their prime and subprime categories as Alt-A because these mortgage loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. However, there is no universally accepted definition of subprime or Alt-A. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgage loans in cases where the mortgage loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance initiative; or (c) in another refinance mortgage loan initiative and the pre-existing mortgage loan (including Alt-A mortgage loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage loan and the original mortgage loan had been previously identified as Alt-A, such refinance mortgage loan may no longer be categorized or reported as Alt-A in the table below because the new refinance mortgage loan replacing the original mortgage loan would not be identified by the seller/servicer as an Alt-A mortgage loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred.

Although we do not categorize single-family mortgage loans we purchase or guarantee as prime or subprime, we recognize that there are a number of mortgage loan types with certain characteristics that indicate a higher degree of credit risk.

Table of Contents

For example, a borrower's credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.

Presented below is a summary of the serious delinquency rates of certain higher-risk categories (based on characteristics of the mortgage loan at origination) of single-family mortgage loans in our single-family credit guarantee portfolio based on UPB. The table includes a presentation of each higher-risk category in isolation. A single mortgage loan may fall within more than one category (for example, an interest-only mortgage loan may also have an original LTV ratio greater than 90%). Mortgage loans with a combination of these attributes will have an even higher risk of delinquency than those with an individual attribute.

Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio

	Percentage of Portfolio		Serious Delinquency Rate		
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	
Interest-only	1	% 2	% 7.11	% 9.36	%
Option ARM ⁽²⁾	—	—	8.46	9.87	
Alt-A	3	3	7.01	8.53	
Original LTV ratio greater than 90% ⁽³⁾	16	16	2.07	2.58	
Lower credit scores at origination (less than 620)	3	3	6.89	8.57	

(1) Excludes mortgage loans underlying certain Other Guarantee Transactions for which data was not available.

For reporting purposes, mortgage loans within the option ARM category continue to be reported in that category (2) following modification, even though the modified mortgage loan no longer provides for optional payment provisions.

(3) Includes HARP mortgage loans, which we are required to purchase as part of our participation in the MHA Program.

The percentage of borrowers in our single-family credit guarantee portfolio, based on UPB, with estimated current LTV ratios greater than 100% was approximately 4% and 6% at September 30, 2015 and December 31, 2014, respectively. An increase in the estimated current LTV ratio of a mortgage loan indicates that the borrower's equity in the home has declined, and can negatively affect the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan. The serious delinquency rate for single-family mortgage loans with estimated current LTV ratios greater than 100% was 8.09% and 9.06% as of September 30, 2015 and December 31, 2014, respectively. Mortgage loans in our 2005-2008 Legacy single-family book have been more affected by declines in home prices that have occurred since 2006 than mortgage loans originated in other years. Our 2005-2008 Legacy single-family book comprised approximately 11% of our single-family credit guarantee portfolio, based on UPB at September 30, 2015, and these mortgage loans accounted for approximately 80% of our credit losses during the nine months ended September 30, 2015.

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. See "NOTE 7: INVESTMENTS IN SECURITIES" for further information on these categories and other concentrations in our investments in securities.

Multifamily Mortgage Portfolio

The table below summarizes the concentration of multifamily mortgage loans in our multifamily mortgage portfolio classified by the legal structure of the investments we hold, based on UPB.

Table 15.3 — Concentration of Credit Risk — Multifamily Mortgage Portfolio

UPB	September 30, 2015	UPB	December 31, 2014
	Delinquency Rate ⁽¹⁾		Delinquency Rate ⁽¹⁾

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(dollars in billions)

Legal Structure

Unsecuritized mortgage loans:

Unsecuritized mortgage loans held-for-investment	\$31.5	—	% \$40.9	0.03	%
Unsecuritized mortgage loans held-for-sale	22.7	—	12.1	—	
K Certificates	92.4	0.02	76.0	0.01	
Other Freddie-Mac mortgage-related securities	5.6	—	5.0	0.64	
Other guarantee commitments	9.6	—	9.3	—	
Total	\$161.8	0.01	\$143.3	0.04	

(1) Based on mortgage loans two monthly payments or more delinquent or in foreclosure.

In the multifamily mortgage portfolio, the primary concentration of credit risk results from the legal structure of the investments we hold. Our exposure to credit risk in K Certificates is minimal, as the expected credit risk is absorbed by the

Table of Contents

subordinate tranches, which are sold to private investors. As a result, our multifamily credit risk is primarily related to mortgage loans that have not been securitized.

Seller/Servicers

We acquire a significant portion of our single-family mortgage loan purchase volume from several large sellers. Our top ten single-family sellers provided approximately 51% of our single-family purchase volume during the nine months ended September 30, 2015. Wells Fargo Bank, N.A. and Bank of America, N.A. each accounted for 12% of our single-family mortgage loan purchase volume and were the only single-family sellers that comprised 10% or more of our purchase volume during the nine months ended September 30, 2015. In recent years, there has been a shift in our purchase volume from depository institutions to non-depository sellers. Some of these non-depository sellers have grown rapidly in recent years and we purchase a significant share of our mortgage loans from them. Our top three non-depository sellers provided approximately 10% of our single-family purchase volume during the nine months ended September 30, 2015.

We are exposed to the risk that servicers might fail to service mortgage loans in accordance with our contractual requirements, resulting in increased credit losses. For example, our servicers have an active role in our loss mitigation efforts, including under the servicing alignment initiative and the MHA Program, and therefore, we have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of our loss mitigation plans. Since we do not have our own servicing operation, if our servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, our business and financial results could be adversely affected.

A significant portion of our single-family mortgage loans are serviced by several large servicers. Our top two single-family mortgage loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 21% and 10%, respectively, of our single-family mortgage loans, and were the only servicers that serviced 10% or more of our mortgage loans, as of September 30, 2015. In recent years, there has been a shift in our servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our mortgage loans. As of September 30, 2015, approximately 10% of our total single-family credit guarantee portfolio was serviced by our three largest non-depository servicers, on a combined basis. Several of these non-depository servicers also service a large share of the mortgage loans underlying our investments in non-agency mortgage-related securities.

Ocwen Financial Corp. (Ocwen) is one of our significant non-depository servicers. Ocwen and its subsidiaries and/or affiliates have been the subject of significant adverse regulatory scrutiny, and we have taken steps designed to reduce our exposure to them. We reduced the UPB of Freddie Mac mortgage loans serviced by Ocwen to \$28.3 billion as of September 30, 2015 from \$50.9 billion as of December 31, 2014, or 44%. We continue to closely monitor Ocwen's performance.

We acquire our multifamily mortgage loans from a network of approved sellers. Our top three multifamily sellers, CBRE Capital Markets, Inc., Walker & Dunlop, LLC, and Holliday Fenoglio Fowler, L.P., provided approximately 17%, 14%, and 14%, respectively, of our multifamily new business volume during the nine months ended September 30, 2015. Our top ten multifamily sellers represented an aggregate of approximately 82% of our multifamily new business volume during the nine months ended September 30, 2015.

A significant portion of our multifamily mortgage loans are serviced by several of our large customers. As of September 30, 2015 our top three multifamily servicers, CBRE Capital Markets, Inc., Wells Fargo Bank, N.A., and Berkadia Commercial Mortgage LLC, each serviced 10% or more of our multifamily mortgage portfolio, excluding mortgage loans underlying K Certificates, and together serviced approximately 37% of this portfolio.

Mortgage Insurers

We are exposed to institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgage loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our loan loss reserves. As of September 30, 2015, mortgage insurers provided coverage with maximum loss limits of \$64.5 billion, for \$251.7 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage loan is covered under both primary and

pool insurance. Our top four mortgage insurer counterparties, United Guaranty Residential Insurance Company, Radian Guaranty Inc., Mortgage Guaranty Insurance Corporation, and Genworth Mortgage Insurance Corporation, each accounted for more than 10%, and collectively represented approximately 80% of our overall mortgage insurance coverage at September 30, 2015. Each of our four largest counterparties had a credit rating of BB or greater, as of September 30, 2015, based on the lower of the S&P or Moody's rating scales and stated in terms of the S&P equivalent. PMI Mortgage Insurance Co. (PMI), Republic Mortgage Insurance Co., and Triad Guaranty Insurance Corp. (Triad) are no longer rated by either S&P or Moody's because they are in rehabilitation or under regulatory supervision.

We received proceeds of \$0.5 billion and \$1.0 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family mortgage loans. We had outstanding receivables from mortgage insurers of \$0.3 billion and \$0.4 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of September 30, 2015 and December 31,

Table of Contents

2014, respectively. The balance of these receivables, net of associated reserves, was approximately \$0.2 billion and \$0.3 billion at September 30, 2015 and December 31, 2014, respectively.

PMI and Triad are both in rehabilitation, and a substantial portion of their claims are recorded by us as deferred payment obligations. These insurers no longer issue new insurance but continue to pay a portion of their respective claims in cash. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers. As of both September 30, 2015 and December 31, 2014, we had cumulative unpaid deferred payment obligations of \$0.4 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk relating to the potential insolvency of, or non-performance by, counterparties in non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. Our policies require that the issuer be rated as investment grade at the time the financial instrument is purchased. We base the permitted term and dollar limits for each of these transactions on the counterparty's financial strength in order to further mitigate our risk.

Our cash and other investment (including cash equivalents) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of September 30, 2015 and December 31, 2014, including amounts related to our consolidated VIEs, there were \$58.8 billion and \$71.4 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; (b) Treasury securities classified as cash equivalents; and (c) cash deposited with the Federal Reserve Bank of New York. As of September 30, 2015 these included:

- \$22.7 billion of securities purchased under agreements to resell with 15 counterparties that had short-term S&P ratings of A-1 or above;

- \$5.0 billion of securities purchased under agreements to resell with four counterparties that had short-term S&P ratings of A-2;

- \$11.0 billion of securities purchased under agreements to resell with three counterparties that do not have short-term S&P or other third-party credit ratings, but were evaluated under the company's counterparty credit risk system and were determined to be eligible for these transactions (by providing more than 100% in approved collateral); and

- \$20.1 billion of cash deposited with the Federal Reserve Bank of New York (as a non-interest-bearing deposit).

Non-Agency Mortgage-Related Security Issuers and Servicers

We are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities. Certain recent developments are discussed below.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against a number of corporate families of financial institutions and related defendants alleging securities laws violations and, in some cases, fraud. In March 2015, FHFA's case against Nomura Holding America, Inc. (or Nomura) went to trial in the U.S. District Court for the Southern District of New York. The trial was completed in April 2015. In May 2015, the judge ruled against Nomura and co-defendant RBS Securities Inc. and ordered the defendants to pay an aggregate of \$806 million, of which \$779 million will be paid to Freddie Mac. The order also provides for Freddie Mac to transfer the mortgage-related securities at issue in this trial to the defendants. The defendants have agreed to pay for certain costs, legal fees and expenses if FHFA prevails in the litigation. This expense reimbursement payment is subject to various conditions, and is capped at \$33 million (half of any such payment would be made to Freddie Mac). The defendants have filed a notice of appeal and the Court has stayed enforcement of the judgment during the pendency of the appeal. We have been working with an investor consortium that seeks to enforce certain claims relating to certain Countrywide non-agency mortgage-related securities. In June 2011, Bank of America Corporation, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve certain claims with respect to a number of Countrywide mortgage securitization trusts. In January 2014, a New York state court approved a significant portion of the settlement. In March 2015, a New York intermediate appellate court upheld the settlement in full. The conditions

to the settlement have been satisfied. We expect that the settlement proceeds will be distributed to the securitization trusts in the near term, and we expect to receive a benefit for those covered securitizations that we hold at the time of such distributions. This benefit, which is expected to be approximately \$0.4 billion, will be reflected in earnings through higher net interest income recognized over the expected life of the securities.

A significant portion of the single-family mortgage loans underlying our investments in non-agency mortgage-related securities is serviced by non-depository servicers. As of September 30, 2015 and December 31, 2014, approximately \$13.5 billion and \$17.9 billion, respectively, in UPB of mortgage loans underlying our investments in single-family non-agency mortgage-related securities were serviced by subsidiaries and/or affiliates of Ocwen, and Ocwen was the only non-depository

Table of Contents

servicer who serviced 10% or more of the UPB underlying our investments in non-agency mortgage-related securities at those dates.

Derivative Portfolio

For a discussion of our derivative counterparties as well as related master netting and collateral agreements, see “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES.”

NOTE 16: FAIR VALUE DISCLOSURES

The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements based on observable inputs other than quoted prices in active markets for identical assets or liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis

The table below presents our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option, as of September 30, 2015 and December 31, 2014.

Table of ContentsTable 16.1 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis
September 30, 2015

	Level 1	Level 2	Level 3	Netting Adjustment ⁽¹⁾	Total
	(in millions)				
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$32,573	\$3,004	\$—	\$35,577
Fannie Mae	—	7,779	57	—	7,836
Ginnie Mae	—	171	2	—	173
CMBS	—	10,938	3,638	—	14,576
Subprime	—	—	13,809	—	13,809
Option ARM	—	—	3,882	—	3,882
Alt-A and other	—	14	3,632	—	3,646
Obligations of states and political subdivisions	—	—	1,480	—	1,480
Manufactured housing	—	—	594	—	594
Total available-for-sale securities, at fair value	—	51,475	30,098	—	81,573
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	15,881	443	—	16,324
Fannie Mae	—	6,845	42	—	6,887
Ginnie Mae	—	290	—	—	290
Other	—	145	2	—	147
Total mortgage-related securities	—	23,161	487	—	23,648
U.S. Treasury securities	12,158	—	—	—	12,158
Total trading securities, at fair value	12,158	23,161	487	—	35,806
Total investments in securities	12,158	74,636	30,585	—	117,379
Mortgage loans:					
Held-for-sale, at fair value	—	20,880	—	—	20,880
Derivative assets, net:					
Interest-rate swaps	—	5,629	—	—	5,629
Option-based derivatives	—	4,841	—	—	4,841
Other	—	103	19	—	122
Subtotal, before netting adjustments	—	10,573	19	—	10,592
Netting adjustments ⁽¹⁾	—	—	—	(9,987)	(9,987)
Total derivative assets, net	—	10,573	19	(9,987)	605
Other assets:					
Guarantee asset	—	—	1,604	—	1,604
Total assets carried at fair value on a recurring basis	\$12,158	\$106,089	\$32,208	\$(9,987)	\$140,468
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value					
	\$—	\$131	\$—	\$—	\$131
Other debt, at fair value	—	7,379	—	—	7,379

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Derivative liabilities, net:					
Interest-rate swaps	—	14,843	7	—	14,850
Option-based derivatives	—	143	—	—	143
Other	—	178	35	—	213
Subtotal, before netting adjustments	—	15,164	42	—	15,206
Netting adjustments ⁽¹⁾	—	—	—	(13,536)	(13,536)
Total derivative liabilities, net	—	15,164	42	(13,536)	1,670
Other liabilities:					
All other, at fair value	—	—	7	—	7
Total liabilities carried at fair value on a recurring basis	\$—	\$22,674	\$49	\$(13,536)	\$9,187

Table of Contents

	Fair Value at December 31, 2014			Netting Adjustment ⁽¹⁾	Total
	Level 1 (in millions)	Level 2	Level 3		
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$34,868	\$4,231	\$—	\$39,099
Fannie Mae	—	11,228	85	—	11,313
Ginnie Mae	—	195	4	—	199
CMBS	—	18,348	3,474	—	21,822
Subprime	—	—	20,589	—	20,589
Option ARM	—	—	5,649	—	5,649
Alt-A and other	—	16	5,027	—	5,043
Obligations of states and political subdivisions	—	—	2,198	—	2,198
Manufactured housing	—	—	638	—	638
Total available-for-sale securities, at fair value	—	64,655	41,895	—	106,550
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	16,542	927	—	17,469
Fannie Mae	—	5,867	232	—	6,099
Ginnie Mae	—	15	1	—	16
Other	—	167	4	—	171
Total mortgage-related securities	—	22,591	1,164	—	23,755
U.S. Treasury securities	6,682	—	—	—	6,682
Total trading securities, at fair value	6,682	22,591	1,164	—	30,437
Total investments in securities	6,682	87,246	43,059	—	136,987
Mortgage loans:					
Held-for-sale, at fair value	—	12,130	—	—	12,130
Derivative assets, net:					
Interest-rate swaps	—	5,653	—	—	5,653
Option-based derivatives	5	4,219	—	—	4,224
Other	—	40	27	—	67
Subtotal, before netting adjustments	5	9,912	27	—	9,944
Netting adjustments ⁽¹⁾	—	—	—	(9,122)	(9,122)
Total derivative assets, net	5	9,912	27	(9,122)	822
Other assets:					
Guarantee asset, at fair value	—	—	1,626	—	1,626
All other, at fair value	—	—	5	—	5
Total other assets	—	—	1,631	—	1,631
Total assets carried at fair value on a recurring basis	\$6,687	\$109,288	\$44,717	\$(9,122)	\$151,570
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value					
	\$—	\$42	\$—	\$—	\$42

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Other debt, at fair value	—	5,820	—	—	5,820
Derivative liabilities, net:					
Interest-rate swaps	—	13,316	—	—	13,316
Option-based derivatives	28	99	—	—	127
Other	—	80	37	—	117
Subtotal, before netting adjustments	28	13,495	37	—	13,560
Netting adjustments ⁽¹⁾	—	—	—	(11,597)	(11,597)
Total derivative liabilities, net	28	13,495	37	(11,597)	1,963
Total liabilities carried at fair value on a recurring basis	\$28	\$19,357	\$37	\$(11,597)	\$7,825

Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was \$4.2 billion and \$3.2 billion, respectively, at September 30, 2015 and December 31, (1)2014. The net interest receivable (payable) of derivative assets and derivative liabilities was \$(0.6) billion and \$(0.7) billion at September 30, 2015 and December 31, 2014, respectively, which was mainly related to interest-rate swaps.

Table of Contents

Changes in Fair Value Levels

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer assets and liabilities between Level 1, Level 2, and Level 3 accordingly. Observable market data includes, but is not limited to, quoted prices and market transactions. Changes in economic conditions or the volume and level of activity in a market generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between Level 1, 2, or 3.

During the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, our transfers between Level 1 and Level 2 assets and liabilities were less than \$1 million.

The table below presents a reconciliation of all assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, including transfers into and out of Level 3 assets and liabilities. The table also presents gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our consolidated statements of comprehensive income for Level 3 assets and liabilities during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period.

Table of Contents

Table 16.2 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs

	Three Months Ended September 30, 2015												
	Realized and unrealized gains (losses)												
	Included							Transfers		Transfers		Balance,	Unrealized
Balance,	Included in	other	Total	Purchases	Issues	Sales	Settlements	into	out of	September	gains		
June 30, 2015	in earnings	(comprehensive income ⁽¹⁾)					net	Level 3 ⁽²⁾	Level 3 ⁽²⁾	30, 2015	(losses) still held		
(in millions)													
Assets													
Investments in securities:													
Available-for-sale, at fair value:													
Mortgage-related securities:													
Freddie Mac	\$3,143	\$3	\$ 37	\$40	\$ 186	\$34	\$(155)	\$(88)	\$—	\$(156)	\$3,004	\$(1)	
Fannie Mae	104	—	—	—	—	—	(7)	—	(40)	57	—	—	
Ginnie Mae	2	—	—	—	—	—	—	—	—	2	—	—	
CMBS	3,534	4	108	112	—	—	(8)	—	—	3,638	4	—	
Subprime	15,802	177	(176)	1	—	—	(1,392)	(602)	—	13,809	37	—	
Option ARM	4,833	66	4	70	—	—	(832)	(189)	—	3,882	30	—	
Alt-A and other	4,222	84	(82)	2	—	—	(346)	(232)	—	(14)	3,632	35	
Obligations of states and political subdivisions	1,627	—	1	1	—	—	(148)	—	—	1,480	—	—	
Manufactured housing	614	—	(3)	(3)	—	—	(17)	—	—	594	—	—	
Total available-for-sale mortgage-related securities	33,881	334	(111)	223	186	34	(2,725)	(1,291)	—	(210)	30,098	105	
Trading, at fair value:													
Mortgage-related securities:													
Freddie Mac	345	(29)	—	(29)	212	—	(2)	28	(111)	443	(29)	—	
Fannie Mae	171	(6)	—	(6)	—	(1)	—	—	(122)	42	(6)	—	
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—	
Other	3	—	—	—	—	—	(1)	—	—	2	—	—	
Total trading mortgage-related securities	519	(35)	—	(35)	212	(1)	(3)	28	(233)	487	(35)	—	
Other assets:													
Guarantee asset ⁽³⁾	1,652	(6)	—	(6)	—	131	(173)	—	—	1,604	(6)	—	
All other, at fair value	7	(7)	—	(7)	—	—	—	—	—	—	—	—	

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Total other assets 1,659 (13) — (13) — 131 — (173) — — 1,604 (6)

Realized and unrealized
(gains) losses

	Balance, June 30, 2015	Included in earnings ⁽¹⁾	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers		Balance, September 30, 2015	Unrealized (gains) losses still held
									to Level 3 ⁽²⁾	out of Level 3 ⁽²⁾		
(in millions)												
Liabilities												
Net derivatives ⁽⁴⁾	\$22	\$(12)	\$ —	\$(12)	\$—	\$—	\$—	\$ 13	\$—	\$—	\$23	\$ 1
Other Liabilities:												
All other, at fair value	—	7	—	7	—	—	—	—	—	—	7	14

Table of Contents

Nine Months Ended September 30, 2015

	Balance, January 1, 2015 (in millions)	Realized and unrealized gains (losses)						Settlement net	Transfers into Level 3 ⁽²⁾	Transfers out of Level 3 ⁽²⁾	Balance, September 30, 2015	Unrealized gains (losses) still held
		Included in earnings	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales					
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$4,231	\$29	\$ 19	\$48	\$ 800	\$34	\$(527)	\$ 214	\$—	\$(1,796)	\$3,004	\$(1)
Fannie Mae	85	—	(1)	(1)	—	—	—	(18)	1	(10)	57	—
Ginnie Mae	4	—	—	—	—	—	—	(2)	—	—	2	—
CMBS	3,474	(21)	209	188	—	—	(2)	(22)	—	—	3,638	(21)
Subprime	20,589	704	(71)	633	—	—	(5,532)	(1,881)	—	—	13,809	109
Option ARM	5,649	186	63	249	—	—	(1,522)	(494)	—	—	3,882	105
Alt-A and other	5,027	221	(55)	166	—	—	(919)	(642)	—	—	3,632	—
Obligations of states and political subdivisions	2,198	—	(11)	(11)	—	—	—	(707)	—	—	1,480	(1)
Manufactured housing	638	(1)	8	7	—	—	(1)	(50)	—	—	594	80
Total available-for-sale mortgage-related securities	41,895	1,118	161	1,279	800	34	(8,503)	(3,602)	1	(1,806)	30,098	271
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	927	(40)	—	(40)	212	—	(10)	(6)	26	(666)	443	(40)
Fannie Mae	232	4	—	4	—	—	(95)	—	—	(99)	42	(8)
Ginnie Mae	1	—	—	—	—	—	(1)	—	—	—	—	—
Other	4	3	—	3	—	—	(3)	(2)	—	—	2	—
Total trading mortgage-related securities	1,164	(33)	—	(33)	212	—	(109)	(8)	26	(765)	487	(48)
Other assets:												
Guarantee asset ⁽³⁾	1,626	(30)	—	(30)	—	457	—	(449)	—	—	1,604	(30)
All other, at fair value	5	(5)	—	(5)	—	—	—	—	—	—	—	—
Total other assets	1,631	(35)	—	(35)	—	457	—	(449)	—	—	1,604	(30)

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	Balance, January 1, 2015	Realized and unrealized (gains) losses Included in earnings	Realized and unrealized (gains) losses Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽²⁾	Transfers out of Level 3 ⁽²⁾	Balance, September 30, 2015	Unrealized (gains) losses still held
(in millions)												
Liabilities												
Net derivatives ⁽⁴⁾	\$10	\$5	\$—	\$5	\$—	\$—	\$—	\$8	\$—	\$—	\$23	\$13
Other Liabilities:												
All other, at fair value	—	7	—	7	—	—	—	—	—	—	7	12

Table of Contents

Three months ended September 30, 2014

	Balance, June 30, 2014 (in millions)	Realized and unrealized gains (losses)	Included in earnings (1)	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3	Transfers out of Level 3	Balance, September 30, 2014	Unrealized gains (losses) still held
Assets													
Investments in securities:													
Available-for-sale, at fair value:													
Mortgage-related securities:													
Freddie Mac	\$2,892	\$3	\$1	\$4	\$4,364	\$—	\$(2,077)	\$(34)	—	—	\$(843)	\$4,306	\$—
Fannie Mae	136	—	(1)	(1)	—	—	—	(4)	45	(70)	—	106	—
Ginnie Mae	5	—	—	—	—	—	—	(1)	—	—	—	4	—
CMBS	3,326	—	41	41	—	—	—	(15)	—	—	—	3,352	—
Subprime	24,291	(53)	1,068	1,015	—	—	(2,423)	(182)	—	—	—	22,701	(125)
Option ARM	6,231	(12)	172	160	—	—	(616)	(68)	—	—	—	5,707	(39)
Alt-A and other	6,454	(85)	96	11	—	—	(1,021)	69	—	—	—	5,513	(2)
Obligations of states and political subdivisions													
Manufactured housing	2,898	—	(1)	(1)	—	—	—	(404)	—	—	—	2,493	—
Total available-for-sale mortgage-related securities	46,901	(147)	1,376	1,229	4,364	—	(6,137)	(657)	45	(913)	—	44,832	(166)
Trading, at fair value:													
Mortgage-related securities:													
Freddie Mac	1,252	41	—	41	915	7	(443)	(13)	—	—	(864)	895	42
Fannie Mae	167	(2)	—	(2)	—	—	—	(3)	15	—	—	177	(2)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—	—
Other	6	—	—	—	—	—	—	(2)	—	—	—	4	—
Total trading mortgage-related securities	1,425	39	—	39	915	7	(443)	(18)	15	(864)	—	1,076	40
Other assets:													
Guarantee asset ⁽³⁾	1,587	(41)	—	(41)	—	142	—	(118)	—	—	—	1,570	(41)
All other, at fair value	12	(4)	—	(4)	—	—	—	—	—	—	—	8	(4)
Total other assets	1,599	(45)	—	(45)	—	142	—	(118)	—	—	—	1,578	(45)

	Balance, June 30, 2014 (in millions)	Realized and unrealized (gains) losses Included in earnings (1)	Included in other comprehensive income (1)	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3	Transfers out of Level 3	Balance, September 30, 2014	Unrealized (gains) losses still held
Liabilities												
Other debt, at fair value	\$1,000	\$—	\$—	\$—	\$—	\$—	\$—	\$ (1,000)	\$—	\$—	\$—	\$—
Net derivatives ⁽⁴⁾	58	(66)	—	(66)	—	—	—	19	—	—	11	(49)

Table of Contents

Nine months ended September 30, 2014

	Balance, January 1, 2014 (in millions)	Realized and unrealized gains (losses)	Included in other comprehensive income ⁽¹⁾	Total Purchases	Issues	Sales	Settlements net	Transfers into Level 3	Transfers out of Level 3	Balance, September 30, 2014	Unrealized gains (losses) still held	
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$1,939	\$1	\$3	\$4	\$5,567	\$—	\$(3,086)	\$(79)	\$3	\$(42)	\$4,306	\$—
Fannie Mae	131	—	(4)	(4)	48	—	(55)	(15)	1	—	106	—
Ginnie Mae	12	—	—	—	—	—	(6)	(3)	1	—	4	—
CMBS	3,109	—	269	269	—	—	(26)	—	—	—	3,352	—
Subprime	27,499	(456)	2,556	2,100	—	—	(5,628)	(1,270)	—	—	22,701	(582)
Option ARM	6,574	(41)	174	133	—	—	(791)	(209)	—	—	5,707	(72)
Alt-A and other	8,706	86	232	318	—	—	(3,409)	(102)	—	—	5,513	(33)
Obligations of states and political subdivisions												
Manufactured housing	684	—	21	21	—	—	(55)	—	—	—	650	—
Total available-for-sale mortgage-related securities	52,149	(409)	3,322	2,913	5,616	—	(12,988)	(2,821)	5	(42)	44,832	(687)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	343	26	—	26	2,064	42	(1,480)	(33)	—	(67)	895	30
Fannie Mae	221	(20)	—	(20)	14	—	(7)	—	—	(31)	177	(20)
Ginnie Mae	74	—	—	—	—	—	(70)	(4)	—	—	—	(2)
Other	8	(1)	—	(1)	—	—	(3)	—	—	—	4	(1)
Total trading mortgage-related securities	646	5	—	5	2,078	42	(1,550)	(47)	—	(98)	1,076	7
Other assets:												
Guarantee asset ⁽³⁾	1,611	(146)	—	(146)	—	290	—	(185)	—	—	1,570	(145)
All other, at fair value	9	(1)	—	(1)	—	—	—	—	—	—	8	(1)
Total other assets	1,620	(147)	—	(147)	—	290	—	(185)	—	—	1,578	(146)

	Balance, January 1, 2014 (in millions)	Realized and unrealized (gains) losses Included in earnings	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3	Transfers out of Level 3	Balance, September 30, 2014	Unrealized (gains) losses still held
Liabilities												
Other debt, at fair value	\$1,528	\$(7)	\$ —	\$(7)	\$ —	\$ —	\$ —	\$(1,521)	\$ —	\$ —	\$ —	\$ —
Net derivatives ⁽⁴⁾	325	(95)	—	(95)	—	—	—	62	—	(281)	11	(30)

Changes in fair value for available-for-sale securities are recorded in AOCI, while gains and losses from sales are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of (1) comprehensive income. For mortgage-related securities classified as trading, the realized and unrealized gains (losses) are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income.

Transfers out of Level 3 during the three and nine months ended September 30, 2015 consist primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price (2) quotes from dealers and third-party pricing services. Transfers into Level 3 during the three and nine months ended September 30, 2015 consist primarily of certain mortgage-related securities due to a lack of market activity and relevant price quotes from dealers and third-party pricing services.

(3) Changes in fair value of the guarantee asset are recorded in other income on our consolidated statements of comprehensive income.

(4) Amounts are prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

Assets on Our Consolidated Balance Sheets Measured at Fair Value on a Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis after our initial recognition. These adjustments usually result from the application of lower-of-cost-or-fair-value accounting or measurement of impairment based on the fair value of the underlying collateral. These assets include impaired held-for-investment single-family and multifamily mortgage loans, held-for-sale single-family and multifamily loans for which we have not elected the fair value option and REO, net.

Table of Contents

The table below presents assets measured on our consolidated balance sheets at fair value on a non-recurring basis as of September 30, 2015 and December 31, 2014, respectively.

Table 16.3 — Assets on Our Consolidated Balance Sheets Measured at Fair Value on a Non-Recurring Basis

	September 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in millions)								
Assets measured at fair value on a non-recurring basis:								
Mortgage loans ⁽¹⁾	\$—	\$926	\$6,039	\$6,965	\$—	\$80	\$8,962	\$9,042
REO, net ⁽²⁾	—	—	1,240	1,240	—	—	1,665	1,665
Total assets measured at fair value on a non-recurring basis	\$—	\$926	\$7,279	\$8,205	\$—	\$80	\$10,627	\$10,707

Includes impaired mortgage loans that are classified as held-for-investment and have been measured for (1) impairment based on the fair value of the underlying collateral, and held-for-sale mortgage loans where the fair value is below cost.

Represents the fair value of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was reduced to fair value of \$1.2 billion, less (2) estimated costs to sell of \$81 million (or approximately \$1.1 billion) at September 30, 2015. The carrying amount of REO, net was reduced to fair value of \$1.7 billion, less estimated costs to sell of \$109 million (or approximately \$1.6 billion) at December 31, 2014.

Valuation Processes and Controls Over Fair Value Measurement

We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

Valuation Techniques for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value

We categorize assets and liabilities that we measure and report on our consolidated balance sheets at fair value within the fair value hierarchy based on the valuation techniques used to derive the fair value and our judgment regarding the observability of the related inputs.

Mortgage Loans, Held-for-Sale

During the three months ended June 30, 2015, we changed our valuation technique related to single-family mortgage loans held-for-sale.

Mortgage loans, held-for-sale include certain deeply delinquent single-family loans accounted for at the lower-of-cost-or-fair-value on a non-recurring basis. Our single-family mortgage loans, held-for-sale are primarily valued using dealer quotes for these and similar whole loans, stratified by loan-to-value ratio and geographic location of the underlying property. The loan-to-value ratios are based on broker price opinions, which consider the physical condition of the property and use comparable sales and other market data in estimating the value. These loans are classified as Level 3 because the underlying assumptions regarding market pricing of delinquent loans are unobservable due to the low volume and level of activity in this market.

Mortgage loans, held-for-sale includes certain multifamily loans that we intend to securitize. These loans are classified as Level 2 given the observable nature of our securitization pricing. See “NOTE 16: FAIR VALUE DISCLOSURES — Valuation Techniques for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value — Mortgage Loans, Held-for-Sale” in our 2014 Annual Report for more information.

Quantitative Information about Level 3 Fair Value Measurements for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value

The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis using

unobservable inputs (Level 3) as of September 30, 2015 and December 31, 2014.

Table of Contents

Table 16.4 — Quantitative Information about Recurring Level 3 Fair Value Measurements for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value

	September 30, 2015		Predominant Valuation Technique(s)	Unobservable Inputs		Weighted Average
	Total Fair Value (dollars in millions)	Level 3 Fair Value		Type	Range	
Recurring fair value measurements						
Assets						
Investments in securities						
Available-for-sale, at fair value						
Mortgage-related securities						
Freddie Mac		\$2,336	Discounted cash flows	OAS	(46) - 503 bps	89 bps
		338	Risk metric	Effective duration ⁽¹⁾	(0.44) - 9.12 years	2.16 years
		330	Other			
Total Freddie Mac	\$35,577	3,004				
Fannie Mae		38	Single external source			
		19	Discounted cash flows			
Total Fannie Mae	7,836	57				
Ginnie Mae		2	Discounted cash flows			
Total Ginnie Mae	173	2				
CMBS		3,638	Risk metric	Effective duration ⁽¹⁾	3.40 - 11.27 years	9.77 years
Total CMBS	14,576	3,638				
Subprime, option ARM, and Alt-A:						
Subprime		13,447	Median of external sources	External pricing sources	\$72.4 - \$76.6	\$74.4
		362	Other			
Total subprime	13,809	13,809				
Option ARM		3,556	Median of external sources	External pricing sources	\$67.3 - \$73.5	\$69.6
		326	Other			
Total option ARM	3,882	3,882				
Alt-A and other		2,908	Median of external sources	External pricing sources	\$84.9 - \$88.2	\$86.5
		724	Other			
Total Alt-A and other	3,646	3,632				
Obligations of states and political subdivisions		1,331	Median of external sources	External pricing sources	\$101.3 - \$101.7	\$101.5
		149	Other			
	1,480	1,480				

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Total obligations of states and political subdivisions						
Manufactured housing		523	Median of external sources	External pricing sources	\$91.4 - \$94.8	\$93.0
		71	Other			
Total manufactured housing	594	594				
Total available-for-sale mortgage-related securities	81,573	30,098				
Trading, at fair value						
Mortgage-related securities						
Freddie Mac		266	Discounted cash flows	OAS	(145) - 1,542 bps	192 bps
		149	Risk Metrics	Effective duration ⁽¹⁾	2.07 - 14.72 years	7.33 years
		28	Other			
Total Freddie Mac	16,324	443				
Fannie Mae		42	Discounted cash flows			
Total Fannie Mae	6,887	42				
Ginnie Mae	290	—				
Other		1	Discounted cash flows			
		1	Median of external sources			
Total other	147	2				
Total trading mortgage-related securities	23,648	487				
Total investments in securities	\$105,221	\$30,585				
Other assets:						
Guarantee asset, at fair value		\$1,494	Discounted cash flows	OAS	17 - 198 bps	56 bps
		110	Other			
Total guarantee asset, at fair value	\$1,604	1,604				
Liabilities						
Net derivatives		23	Other			
Total net derivatives	1,065	23				
Other liabilities:						
All other, at fair value		7	Other			
Total all other, at fair value	7	7				

Table of Contents

	December 31, 2014		Predominant Valuation Technique(s)	Unobservable Inputs		Weighted Average
	Total Fair Value	Level 3 Fair Value		Type	Range	
Recurring fair value measurements						
Assets						
Investments in securities						
Available-for-sale, at fair value						
Mortgage-related securities						
Freddie Mac		\$2,980	Discounted cash flows	OAS	(146) - 144 bps	83 bps
		375	Risk metric	Effective duration ⁽¹⁾	0.18 - 7.54 years	3.82 years
		143	Median of external sources	External pricing sources	\$103.2 - \$104.4	\$ 103.8
		733	Other			
Total Freddie Mac	\$39,099	4,231				
Fannie Mae		47	Median of external sources			
		29	Discounted cash flows			
		9	Other			
Total Fannie Mae	11,313	85				
Ginnie Mae		4	Discounted cash flows			
Total Ginnie Mae	199	4				
CMBS		2,726	Risk Metrics	Effective duration ⁽¹⁾	5.84 - 10.65 years	9.59 years
		748	Discounted cash flows	OAS	181 -766 bps	421 bps
Total CMBS	21,822	3,474				
Subprime, option ARM, and Alt-A:						
Subprime		18,789	Median of external sources	External pricing sources	\$71.0 - \$76.1	\$ 73.5
		1,800	Other			
Total subprime	20,589	20,589				
Option ARM		5,205	Median of external sources	External pricing sources	\$65.3 - \$70.9	\$ 67.9
		444	Other			
Total option ARM	5,649	5,649				
Alt-A and other		4,116	Median of external sources	External pricing sources	\$83.0 - \$86.2	\$ 84.5
		911	Other			
Total Alt-A and other	5,043	5,027				
Obligations of states and political subdivisions		1,992	Median of external sources	External pricing sources	\$101.3 - \$101.9	\$ 101.6

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		206	Other			
Total obligations of states and political subdivisions	2,198	2,198				
Manufactured housing		515	Median of external sources	External pricing sources	\$89.3 - \$92.4	\$91.0
		123	Single external source	External pricing source	\$89.8 - \$89.8	\$89.8
Total manufactured housing	638	638				
Total available-for-sale mortgage-related securities	106,550	41,895				
Trading, at fair value						
Mortgage-related securities						
Freddie Mac		478	Discounted cash flows	OAS	(219) - 9,748 bps	169 bps
		320	Risk Metrics	Effective duration ⁽¹⁾	1.78 - 2.30 years	2.27 years
		129	Other			
Total Freddie Mac	17,469	927				
Fannie Mae		207	Discounted cash flows	OAS	(173) - 2,027 bps	204 bps
		25	Other			
Total Fannie Mae	6,099	232				
Ginnie Mae	16	1				
Other		3	Median of external sources			
		1	Discounted cash flows			
Total other	171	4				
Total trading mortgage-related securities	23,755	1,164				
Total investments in securities	\$130,305	\$43,059				
Other assets:						
Guarantee asset, at fair value		\$1,285	Discounted cash flows	OAS	17 - 202 bps	53 bps
		341	Median of external sources	External pricing sources	\$10.0 - \$21.2	\$16.6
Total guarantee asset, at fair value	\$1,626	1,626				
All other, at fair value		5	Other			
Total all other, at fair value	5	5				
Total other assets	1,631	1,631				
Liabilities						
Net derivatives		10	Other			
Total net derivatives	1,141	10				

(1) Effective duration is used as a proxy to represent the aggregate impact of key rate durations.

The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured on our consolidated balance sheets at fair value on a non-recurring basis using unobservable inputs (Level 3) as of September 30, 2015 and December 31, 2014.

Table of Contents

Table 16.5 — Quantitative Information about Non-Recurring Level 3 Fair Value Measurements for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value

September 30, 2015						
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs Type	Range	Weighted Average
(dollars in millions)						
Non-recurring fair value measurements						
Mortgage loans	\$6,965	\$6,039				
			Internal model	Historical sales proceeds	\$3,000 - \$854,400	\$165,048
			Internal model	Housing sales index	42 - 418 bps	87 bps
			Third-party appraisal	Property value	\$1 million - \$30 million	\$28 million
			Income capitalization ⁽¹⁾	Capitalization rates	6%- 9%	7%
			Median of external sources	External pricing sources	\$39.5 - \$95.4	\$72.0
REO, net	\$1,240	\$1,240				
			Internal model	Historical sales proceeds	\$3,000 - \$626,005	\$154,140
			Internal model	Housing sales index	44 - 418 bps	86 bps
December 31, 2014						
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs Type	Range	Weighted Average
(dollars in millions)						
Non-recurring fair value measurements						
Mortgage loans	\$8,962	\$8,962				
			Internal model	Historical sales proceeds	\$3,000 - \$896,519	\$162,556
			Internal model	Housing sales index	38 - 294 bps	82 bps
			Third-party appraisal	Property value	\$11 million - \$44 million	\$31 million
			Income capitalization ⁽¹⁾	Capitalization rates	6%- 9%	7%
REO, net	\$1,665	\$1,665				
			Internal model	Historical sales proceeds	\$3,008 - \$896,519	\$154,165
			Internal model	Housing sales index	38 - 294 bps	82 bps

The predominant valuation technique used for multifamily mortgage loans. Certain loans in this population are (1) valued using other techniques, and the capitalization rate for those is not represented in the “Range” or “Weighted Average” above.

Fair Value of Financial Instruments

The table below presents the carrying value and estimated fair value of our financial instruments as of September 30, 2015 and December 31, 2014.

Table of Contents

Table 16.6 — Fair Value of Financial Instruments

	September 30, 2015					
	Fair Value					
	GAAP Carrying Amount (in millions)	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	\$5,000	\$5,000	\$—	\$—	\$ —	\$5,000
Restricted cash and cash equivalents	15,108	15,108	—	—	—	15,108
Federal funds sold and securities purchased under agreements to resell	38,738	—	38,738	—	—	38,738
Investments in securities:						
Available-for-sale, at fair value	81,573	—	51,475	30,098	—	81,573
Trading, at fair value	35,806	12,158	23,161	487	—	35,806
Total investments in securities	117,379	12,158	74,636	30,585	—	117,379
Mortgage loans:						
Mortgage loans held by consolidated trusts	1,615,291	—	1,467,806	175,951	—	1,643,757
Unsecuritized mortgage loans	134,576	—	35,119	101,759	—	136,878
Total mortgage loans	1,749,867	—	1,502,925	277,710	—	1,780,635
Derivative assets, net	605	—	10,573	19	(9,987	) 605
Guarantee asset	1,604	—	—	1,812	—	1,812
Advances to lenders	858	—	858	—	—	858
Total financial assets	\$1,929,159	\$32,266	\$1,627,730	\$310,126	\$ (9,987	) \$1,960,135
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	\$1,539,108	\$—	\$1,623,303	\$976	\$ —	\$1,624,279
Other debt	408,281	—	405,038	10,768	—	415,806
Total debt, net	1,947,389	—	2,028,341	11,744	—	2,040,085
Derivative liabilities, net	1,670	—	15,164	42	(13,536	) 1,670
Guarantee obligation	1,573	—	—	2,995	—	2,995
Total financial liabilities	\$1,950,632	\$—	\$2,043,505	\$14,781	\$ (13,536	) \$2,044,750
	December 31, 2014					
	Fair Value					
	GAAP Carrying Amount (in millions)	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	\$10,928	\$10,928	\$—	\$—	\$ —	\$10,928

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Restricted cash and cash equivalents	8,535	8,535	—	—	—	8,535
Federal funds sold and securities purchased under agreements to resell	51,903	—	51,903	—	—	51,903
Investments in securities:						
Available-for-sale, at fair value	106,550	—	64,655	41,895	—	106,550
Trading, at fair value	30,437	6,682	22,591	1,164	—	30,437
Total investments in securities	136,987	6,682	87,246	43,059	—	136,987
Mortgage loans:						
Mortgage loans held by consolidated trusts	1,558,094	—	1,387,412	197,896	—	1,585,308
Unsecuritized mortgage loans	142,486	—	22,305	119,157	—	141,462
Total mortgage loans	1,700,580	—	1,409,717	317,053	—	1,726,770
Derivative assets, net	822	5	9,912	27	(9,122)	822
Guarantee asset	1,626	—	—	1,837	—	1,837
Total financial assets	\$1,911,381	\$26,150	\$1,558,778	\$361,976	\$ (9,122)	\$1,937,782
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	\$1,479,473	\$—	\$1,521,508	\$1,364	\$ —	\$1,522,872
Other debt	450,069	—	444,748	13,371	—	458,119
Total debt, net	1,929,542	—	1,966,256	14,735	—	1,980,991
Derivative liabilities, net	1,963	28	13,495	37	(11,597)	1,963
Guarantee obligation	1,623	—	—	3,127	—	3,127
Total financial liabilities	\$1,933,128	\$28	\$1,979,751	\$17,899	\$ (11,597)	\$1,986,081
Valuation Techniques for Assets and Liabilities Not Measured on Our Consolidated Balance Sheets at Fair Value, but for Which the Fair Value is Disclosed						
HARP Loans						

For loans that have been refinanced under HARP, we value our guarantee obligation using the management and guarantee fees currently charged by us under that initiative. HARP loans valued using this technique are classified as Level 2, as the fees

Table of Contents

charged by us are observable. If, subsequent to delivery, the refinanced loan no longer qualifies for purchase based on current underwriting standards (such as becoming past due or being modified), the fair value of the guarantee obligation is then measured using our internal credit models or the median of external sources, if the loan's principal market has changed to the whole loan market. HARP loans valued using either of these techniques are classified as Level 3 as significant inputs are unobservable. The majority of our HARP loans are classified as Level 2.

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends (currently scheduled for December 31, 2016), the beneficial pricing afforded to HARP loans will no longer be reflected in the pricing structure of our management and guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our mortgage loans would have decreased by \$14.5 billion and \$19.1 billion as of September 30, 2015 and December 31, 2014, respectively. The total fair value of the loans in our portfolio that reflects the pricing afforded to HARP loans as of September 30, 2015 and December 31, 2014 is \$94.0 billion and \$119.8 billion, respectively.

Fair Value Option

We elected the fair value option for certain types of investments in securities, multifamily held-for-sale mortgage loans, and certain debt. For information regarding the net unrealized gains (losses) on trading securities, which include gains (losses) for other items that are not selected for the fair value option, see Gains (losses) on trading securities within "Table 13.2 — Segment Earnings (Loss) and Reconciliation to GAAP Results."

The table below presents the fair value and UPB related to certain items for which we have elected the fair value option as of September 30, 2015 and December 31, 2014.

Table 16.7 — Difference between Fair Value and Unpaid Principal Balance for Certain Financial Instruments with Fair Value Option Elected

	September 30, 2015		December 31, 2014	
	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term
	(in millions)			
Fair value	\$20,880	\$7,379	\$12,130	\$5,820
Unpaid principal balance	20,603	7,378	11,872	5,896
Difference	\$277	\$1	\$258	\$(76)

Changes in Fair Value under the Fair Value Option Election

We recorded gains (losses) of \$164 million and \$117 million during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and \$262 million and \$526 million during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, from the change in fair value on multifamily held-for-sale mortgage loans recorded at fair value in other income in our consolidated statements of comprehensive income.

Gains (losses) on debt securities with the fair value option elected were \$80 million and \$156 million during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and \$(65) million and \$(22) million during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, and were recorded in other income in our consolidated statements of comprehensive income.

Changes in fair value attributable to instrument-specific credit risk were not material during the three and nine months ended September 30, 2015 and the three and the nine months ended September 30, 2014 for any assets or liabilities for which we elected the fair value option.

NOTE 17: LEGAL CONTINGENCIES

We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage loan foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell mortgage loans to, and/or service mortgage loans for, us. In these

cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgage loans. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification of Freddie Mac against liability arising from seller/servicers' wrongful actions with respect to mortgage loans sold to or serviced for Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or

Table of Contents

threatened against us when a loss is probable (as defined in such guidance) and the amount of the loss can be reasonably estimated.

Putative Securities Class Action Lawsuit: Ohio Public Employees Retirement System (“OPERS”) vs. Freddie Mac, Syron, et al.

This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007. FHFA later intervened as Conservator, and the plaintiff amended its complaint on several occasions. The plaintiff alleged, among other things, that the defendants violated federal securities laws by making false and misleading statements concerning our business, risk management, and the procedures we put into place to protect the company from problems in the mortgage industry. The plaintiff sought unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees.

On October 8, 2013, defendants filed motions to dismiss the complaint. On October 31, 2014, the Court granted defendants’ motions and dismissed the case in its entirety against all defendants, with prejudice. On November 25, 2014, plaintiff filed a notice of appeal in the U.S. Court of Appeals for the Sixth Circuit.

At present, it is not possible for us to predict the probable outcome of this lawsuit or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matter due to the following factors, among others: the inherent uncertainty of the appellate process; the inherent uncertainty of pre-trial litigation in the event the case is ultimately remanded to the District Court in whole or in part; and the fact that the District Court has not yet ruled upon motions for class certification or summary judgment. In particular, absent resolution of the appellate process, the certification of a class, the identification of a class period, and the identification of the alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

Litigation Related to the Taylor, Bean & Whitaker (TBW) Bankruptcy

On August 24, 2009, TBW, which had been one of our single-family seller/servicers, filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Florida. We entered into a settlement with TBW and the TBW creditors’ committee regarding the TBW bankruptcy in 2011. However, we continue to be involved in litigation with other parties relating to the TBW bankruptcy, as described below.

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in the U.S. Bankruptcy Court for the Middle District of Florida against TBW, Freddie Mac and other parties seeking a declaration rescinding \$90 million of mortgage bankers bonds providing fidelity and errors and omissions insurance coverage. Several excess insurers on the bonds thereafter filed similar claims in that action. Freddie Mac has filed a proof of loss under the bonds. The underwriters moved for partial summary judgment against Freddie Mac in April 2013. The Court denied this motion on March 27, 2014, and the underwriters subsequently appealed the denial of the motion to the U.S. District Court. Numerous additional motions for summary judgment filed by the parties, including by Freddie Mac, are pending. On February 19, 2015, the Court granted summary judgment against TBW on its claims. Freddie Mac has moved for a clarification that the Court’s judgment does not apply to Freddie Mac’s separate claims against Lloyds. On September 16, 2015, TBW advised the Court that a settlement had been reached. Documentation of the settlement agreement in a form satisfactory to the parties, including Freddie Mac, is proceeding, and must be submitted to the Court for approval.

On December 29, 2014, Freddie Mac filed an action in the U.S. District Court for the Southern District of New York against certain underwriters at Lloyds, London and several other insurance carriers seeking coverage for \$111 million in losses under Freddie Mac’s primary and excess financial institution bonds. The losses resulted from fraud perpetrated by senior officers and employees of TBW. At present, it is not possible for us to predict the probable outcome of this lawsuit.

On September 15, 2014, Freddie Mac filed a lawsuit in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County, Florida against Deloitte & Touche LLP (Deloitte) for negligent misrepresentation / false information negligently supplied for the guidance of others. The complaint alleges, among other items, that Deloitte, as TBW’s independent auditor, made and supplied false information during the course of its professional audits of TBW, as a

result of which Freddie Mac incurred damages in excess of \$1.3 billion. Freddie Mac seeks damages and interest, as well as costs. On October 8, 2014, Deloitte removed the case from state court to the U.S. District Court for the Southern District of Florida. Discovery is proceeding. At present, it is not possible for us to predict the probable outcome of this lawsuit.

Table of Contents

LIBOR Lawsuit

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint on July 22, 2013, and a second amended complaint on October 6, 2014. The defendants have moved to dismiss the second amended complaint; Freddie Mac has opposed this motion. On August 4, 2015, the Court dismissed the portion of our claim related to antitrust violations and fraud. On August 18, 2015, Freddie Mac filed a motion for reconsideration.

Litigation Concerning the Purchase Agreement

Since July 2013, a number of lawsuits have been filed against us concerning the August 2012 amendment to the Purchase Agreement, which created the net worth sweep dividend provisions of the senior preferred stock. The plaintiffs in the lawsuits allege that they are holders of common stock and/or junior preferred stock issued by Freddie Mac and Fannie Mae. (For purposes of this discussion, junior preferred stock refers to the various series of preferred stock of Freddie Mac and Fannie Mae other than the senior preferred stock issued to Treasury.) It is possible that similar lawsuits will be filed in the future. The lawsuits against us are described below.

Litigation in the U.S. District Court for the District of Columbia

In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations. This case is the result of the consolidation of three putative class action lawsuits: Cacciapelle and Bareiss vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 29, 2013; American European Insurance Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 30, 2013; and Marneu Holdings, Co. vs. FHFA, Treasury, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, filed on September 18, 2013. (The Marneu case was also filed as a shareholder derivative lawsuit.) A consolidated amended complaint was filed on December 3, 2013. In the consolidated amended complaint, plaintiffs allege, among other items, that the August 2012 amendment to the Purchase Agreement breached Freddie Mac's and Fannie Mae's respective contracts with the holders of junior preferred stock and common stock and the covenant of good faith and fair dealing inherent in such contracts. Plaintiffs sought unspecified damages, equitable and injunctive relief, and costs and expenses, including attorney and expert fees.

The Cacciapelle and American European Insurance Company lawsuits were filed purportedly on behalf of a class of purchasers of junior preferred stock issued by Freddie Mac or Fannie Mae who held stock prior to, and as of, August 17, 2012. The Marneu lawsuit was filed purportedly on behalf of a class of purchasers of junior preferred stock and purchasers of common stock issued by Freddie Mac or Fannie Mae over a not-yet-defined period of time.

Arrowood Indemnity Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, FHFA and Treasury. This case was filed on September 20, 2013. The allegations and demands made by plaintiffs in this case were generally similar to those made by the plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case described above. Plaintiffs in the Arrowood lawsuit also requested that, if injunctive relief were not granted, the Arrowood plaintiffs be awarded damages against the defendants in an amount to be determined including, but not limited to, the aggregate par value of their junior preferred stock, the total of which they stated to be approximately \$42 million.

American European Insurance Company, Cacciapelle and Miller vs. Treasury and FHFA. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on July 30, 2014. The complaint alleges that, through the August 2012 amendment to the Purchase Agreement, Treasury and FHFA breached their respective fiduciary duties to Freddie Mac, causing Freddie Mac to suffer damages. The plaintiffs asked that Freddie Mac be awarded compensatory damages and disgorgement, as well as attorneys' fees, costs and other expenses.

FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case and the other related cases on January 17, 2014. Treasury

filed a motion to dismiss the same day. On September 30, 2014, the District Court granted the motions and dismissed the plaintiffs' claims. On October 9, 2014, Arrowood filed a notice of appeal of the District Court's decision. On October 15, 2014, plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case filed a notice of appeal of the District Court's decision. The scope of this appeal includes the American European Insurance Company shareholder derivative lawsuit.

Litigation in the U.S. Court of Federal Claims

Reid and Fisher vs. the United States of America and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on February 26, 2014. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful

Table of Contents

taking of private property for public use without just compensation. The plaintiffs ask that Freddie Mac be awarded just compensation for the U.S. government's alleged taking of its property, attorneys' fees, costs and other expenses. Rafter, Rattien and Pershing Square Capital Management vs. the United States of America et al. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on August 14, 2014. The complaint alleges that: (a) the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation; and (b) the U.S. government breached an implied-in-fact contract with Freddie Mac. On September 2, 2015, plaintiffs filed an amended complaint, which contains one claim involving Freddie Mac. The amended complaint alleges that Freddie Mac's charter is a contract with its common stockholders, and that, through the August 2012 amendment to the Purchase Agreement, the U.S. government breached the implied covenant of good faith and fair dealing inherent in such contract. Plaintiffs ask that they be awarded damages or other appropriate relief for the alleged breach of contract as well as attorneys' fees, costs and expenses.

Litigation in the U.S. District Court for the District of Delaware

Jacobs and Hines vs. FHFA and Treasury. This case was filed on August 17, 2015 as a putative class action lawsuit purportedly on behalf of a class of holders of preferred stock or common stock issued by Freddie Mac or Fannie Mae. The case was also filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants. The complaint alleges, among other items, that the August 2012 amendment to the Purchase Agreement violated applicable state law and constituted a breach of contract, as well as a breach of covenants of good faith and fair dealing. Plaintiffs seek equitable and injunctive relief (including restitution of the monies paid by Freddie Mac and Fannie Mae to Treasury under the net worth sweep dividend), compensatory damages, attorneys' fees, costs and expenses.

At present, it is not possible for us to predict the probable outcome of the lawsuits discussed above in the U.S. District Courts for the District of Columbia and the District of Delaware and the U.S. Court of Federal Claims (including the outcome of any appeal) or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matters due to a number of factors, including the inherent uncertainty of pre-trial litigation. In addition, with respect to the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case, the plaintiffs have not demanded a stated amount of damages they believe are due, and the Court has not certified a class.

NOTE 18: REGULATORY CAPITAL

On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide quarterly submissions to FHFA on minimum capital.

The table below summarizes our minimum capital requirements and deficits and net worth.

Table 18.1 — Net Worth and Minimum Capital

	September 30, 2015	December 31, 2014
	(in millions)	
GAAP net worth	\$ 1,299	\$ 2,651
Core capital (deficit) ⁽¹⁾⁽²⁾	\$(72,707	) \$(71,415
Less: Minimum capital requirement ⁽¹⁾	19,364	20,090
Minimum capital surplus (deficit) ⁽¹⁾	\$(92,071	) \$(91,505

⁽¹⁾ Core capital and minimum capital figures for September 30, 2015 are estimates. FHFA is the authoritative source for our regulatory capital.

⁽²⁾ Core capital excludes certain components of GAAP total equity (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. As of September 30, 2015, our aggregate funding received from Treasury under the Purchase Agreement was \$71.3 billion. This aggregate funding amount does not include the initial \$1 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. We paid quarterly dividends of \$0.9 billion, \$0.7 billion and \$3.9 billion on the senior preferred stock in cash in March 2015, June 2015 and September 2015, respectively, at the direction of the Conservator.

NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS

The table below presents the significant components of other income (loss) and other expense on our consolidated statements of comprehensive income.

Table of Contents

Table 19.1 — Significant Components of Other Income (Loss) and Other Expense on Our Consolidated Statements of Comprehensive Income

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(in millions)			
Other income (loss):				
Non-agency mortgage-related securities settlements ⁽¹⁾	\$—	\$1,187	\$—	\$6,084
Gains (losses) on mortgage loans	(197	) 168	(1,321	) 383
Other	322	441	889	862
Total other income (loss)	\$125	\$1,796	\$(432	) \$7,329
Other expense:				
Property tax and insurance expense on held-for-sale loans	\$(176	) \$—	\$(937	) \$(62
Other	(94	) (43	) (297	) (137
Total other expense	\$(270	) \$(43	) \$(1,234	) \$(199

Settlement agreements primarily related to lawsuits regarding our investments in certain non-agency mortgage-related securities is a significant component of other income during the three and nine months ended September 30, 2014. For more information, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers” in our 2014 Annual Report.

The table below presents the significant components of other assets and other liabilities on our consolidated balance sheets.

Table 19.2 — Significant Components of Other Assets and Other Liabilities on Our Consolidated Balance Sheets

	September 30, 2015	December 31, 2014
	(in millions)	
Other assets:		
Accounts and other receivables ⁽¹⁾	\$4,527	\$3,899
Current income tax receivable	1,718	1,048
Guarantee asset	1,604	1,626
Advances to lenders	858	—
All other	1,079	1,121
Total other assets	\$9,786	\$7,694
Other liabilities:		
Servicer liabilities	\$1,427	\$1,847
Guarantee obligation	1,573	1,623
Accounts payable and accrued expenses	1,347	803
All other	1,307	785
Total other liabilities	\$5,654	\$5,058

(1) Primarily consists of servicer receivables and other non-interest receivables.

END OF CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See “NOTE 17: LEGAL CONTINGENCIES” for more information regarding our involvement as a party to various legal proceedings.

In addition, a number of lawsuits have been filed against the U.S. government relating to conservatorship and the Purchase Agreement. For information on these lawsuits, see “LEGAL PROCEEDINGS — Litigation Against the U.S. Government Concerning Conservatorship and the Purchase Agreement” in our 2014 Annual Report and “LEGAL PROCEEDINGS” in our Forms 10-Q for the quarters ended March 31, 2015 and June 30, 2015. On October 23, 2015, a similar lawsuit was filed in the U.S. District Court for the Eastern District of Kentucky against FHFA, the Director of FHFA, and the U.S. Department of the Treasury. This new lawsuit seeks, among other items, to invalidate the net worth sweep dividend provisions of the senior preferred stock. Freddie Mac is not a party to any of these lawsuits.

ITEM 1A. RISK FACTORS

This Form 10-Q should be read together with the “RISK FACTORS” section in our 2014 Annual Report, which describes various risks and uncertainties to which we are or may become subject. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies, and/or prospects.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

The securities we issue are “exempted securities” under the Securities Act of 1933, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under those plans to employees and members of the Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury’s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

No stock options were exercised during the three months ended September 30, 2015. See “NOTE 11: STOCKHOLDERS’ EQUITY” in our 2014 Annual Report for more information.

Dividend Restrictions

Our payment of dividends on Freddie Mac common stock or any series of Freddie Mac preferred stock (other than senior preferred stock) is subject to certain restrictions as described in “MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES — Dividends and Dividend Restrictions” in our 2014 Annual Report.

Information about Certain Securities Issuances by Freddie Mac

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac’s securities offerings are exempted from SEC registration requirements. As a result, we are not required to and do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars (or supplements thereto) that we post on our web site or in a current report on Form 8-K, in accordance with a “no-action” letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our web site, the document will be posted on our web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The web site address for disclosure about our debt securities, other than debt securities of consolidated trusts, is www.freddie.com/debt. From this address, investors can access the offering circular and related supplements for

debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt securities is available at www.freddiemac.com/creditriskofferings.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations, can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements.

ITEM 6. EXHIBITS

Table of Contents

The exhibits are listed in the Exhibit Index at the end of this Form 10-Q.

140

Freddie Mac Form 10-Q

Table of Contents

SIGNATURES

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

Federal Home Loan Mortgage Corporation

By: /s/ Donald H. Layton
Donald H. Layton
Chief Executive Officer

Date: November 3, 2015

By: /s/ James G. Mackey
James G. Mackey
Executive Vice President — Chief Financial Officer
(Principal Financial Officer)

Date: November 3, 2015

Table of Contents

GLOSSARY

This Glossary includes acronyms and defined terms that are used throughout this report.

2005-2008 Legacy single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated from 2005 through 2008.

ACIS — Agency Credit Insurance Structure — A risk transfer program through which we obtain insurance policies (typically underwritten by a panel of insurers and reinsurers) that obligate the counterparties to reimburse us for specified credit events (based on either actual losses or losses calculated using a predefined formula) up to an aggregate limit that are incurred on our first loss and/or mezzanine loss positions associated with STACR debt note transactions in exchange for our payment of periodic premiums.

Administration — Executive branch of the U.S. government.

Agency securities — Generally refers to mortgage-related securities issued by the GSEs or government agencies.

Alt-A mortgage loan — Although there is no universally accepted definition of Alt-A, many mortgage market participants classify single-family mortgage loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. In determining our Alt-A exposure on mortgage loans underlying our single-family credit guarantee portfolio, we classified mortgage loans as Alt-A if the lender that delivers them to us classified the loans as Alt-A, or if the loans had reduced documentation requirements as well as a combination of certain credit characteristics and expected performance characteristics at acquisition which, when compared to full documentation loans in our portfolio, indicate that the loan should be classified as Alt-A. In the event we purchase a refinance mortgage loan in either our relief refinance initiative or in another mortgage refinance initiative and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A mortgage in this report and our other financial reports because the new refinance loan replacing the original loan would not be identified by the servicer as an Alt-A mortgage loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. For non-agency mortgage-related securities that are backed by Alt-A mortgage loans, we categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions.

AOCI — Accumulated other comprehensive income (loss), net of taxes

ARM — Adjustable-rate mortgage — A mortgage loan with an interest rate that adjusts periodically over the life of the mortgage loan based on changes in a benchmark index.

Bond insurers — Companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets.

Bps — Basis points — One one-hundredth of 1%. This term is commonly used to quote the yields of debt instruments or movements in interest rates.

Cash and other investments portfolio — Comprised of the liquidity and contingency operating portfolio and restricted cash.

CCO — Chief Compliance Officer

CERO — Chief Enterprise Risk Officer

CFPB — Consumer Financial Protection Bureau

CFTC — Commodity Futures Trading Commission

Charge-Offs, gross — Represent the carrying amount of a mortgage loan that has been discharged in order to remove the loan or a portion of the loan from our consolidated balance sheet due to management's determination that the loan is uncollectible. Historically, our charge-offs primarily resulted from foreclosure transfers and short sales. Charge-offs are generally calculated as the recorded investment of a mortgage loan at the date it is deemed uncollectible less the estimated value in final disposition or actual net sales in a short sale.

Charter — The Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. § 1451 et seq.

CMBS — Commercial mortgage-backed security — A security backed by mortgage loans on commercial property (often including multifamily rental properties) rather than one-to-four family residential real estate. Although the mortgage

loan pools underlying CMBS can include mortgage loans financing multifamily properties and commercial properties, such as office buildings and hotels, the classes of CMBS that we hold receive distributions of scheduled cash flows only from multifamily properties. Military housing revenue bonds are included as CMBS within investments-related disclosures. We have not identified CMBS as either subprime or Alt-A securities.

Comprehensive income (loss) — Consists of net income (loss) plus total other comprehensive income (loss).

Conforming loan/Conforming jumbo loan/Conforming loan limit — A conventional single-family mortgage loan with an original principal balance that is equal to or less than the applicable statutory conforming loan limit, which is a dollar amount

Table of Contents

cap on the size of the original principal balance of single-family mortgage loans we are permitted by law to purchase or securitize. The conforming loan limit is determined annually based on changes in FHFA's housing price index. Since 2006, the base conforming loan limit for a one-family residence has been set at \$417,000, and higher limits have been established in certain "high-cost" areas (currently, up to \$625,500 for a one-family residence). Higher limits also apply to two- to four-family residences, and for mortgages secured by properties in Alaska, Guam, Hawaii and the U.S. Virgin Islands.

Actual high-cost area loan limits are set by FHFA for each county (or equivalent), and the loan limit for specific high-cost areas may be lower than the maximum amounts. We refer to mortgage loans that we have purchased with UPB exceeding the base conforming loan limit (i.e., \$417,000) as conforming jumbo loans.

Conservator — The Federal Housing Finance Agency, acting in its capacity as Conservator of Freddie Mac.

Credit score — Credit score data is based on FICO scores, a credit scoring system developed by Fair, Isaac and Co. FICO scores are currently the most commonly used credit scores. FICO scores are ranked on a scale of approximately 300 to 850 points with a higher value indicating a lower likelihood of credit default. Although we obtain updated credit information on certain borrowers after the origination of a mortgage loan, such as those borrowers seeking a modification, the scores presented in our reports represent the credit score of the borrower at the time of loan origination or our purchase and may not be indicative of the current creditworthiness of the borrower.

Credit enhancement — Any number of different financial arrangements that are designed to reduce credit risk by partially or fully compensating an investor in the event of certain financial losses. Examples of credit enhancements include mortgage insurance, credit risk transfer transactions, overcollateralization, indemnification agreements, and government guarantees.

Credit losses — Consists of charge-offs, net and REO operations expense.

Credit-related (benefit) expense (or credit-related expense) — Consists of our provision (benefit) for credit losses and REO operations expense.

Deed in lieu of foreclosure — An alternative to foreclosure in which the borrower voluntarily conveys title to the property to the lender and the lender accepts such title (sometimes together with an additional payment by the borrower) in full satisfaction of the mortgage indebtedness.

Delinquency — A failure to make timely payments of principal or interest on a mortgage loan. For single-family mortgage loans, we generally report delinquency rate information based on the number of loans that are seriously delinquent. For multifamily loans, we report delinquency rate information based on the UPB of mortgage loans that are two monthly payments or more past due or in the process of foreclosure. Mortgage loans that have been modified are not counted as delinquent as long as the borrower is not delinquent under the modified terms.

Derivative — A financial instrument whose value depends upon the characteristics and value of an underlying financial asset or index, such as a security or commodity price, interest or currency rates, or other financial indices.

Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act.

Duration — Duration is a measure of a financial instrument's price sensitivity to changes in interest rates.

Duration gap — One of our primary interest-rate risk measures. Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities, and is expressed in months relative to the market value of assets. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of net assets unchanged.

Exchange Act — Securities and Exchange Act of 1934, as amended

Fannie Mae — Federal National Mortgage Association

Federal Reserve — Board of Governors of the Federal Reserve System

FHA — Federal Housing Administration

FHFA — Federal Housing Finance Agency — An independent agency of the U.S. government with responsibility for regulating Freddie Mac, Fannie Mae, and the FHLBs.

Fixed-rate mortgage — Refers to a mortgage loan originated at a specific rate of interest that remains constant over the life of the loan. For purposes of presentation in this report and elsewhere in our reporting, we have categorized a

number of modified mortgage loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified mortgage loans provide for the interest rate to adjust in the future, such future rates are determined at the time of the modification rather than at a subsequent date.

Foreclosure alternative — A workout option pursued when a home retention action is not successful or not possible. A foreclosure alternative is either a short sale or deed in lieu of foreclosure.

Foreclosure or foreclosure transfer — Refers to our completion of a transaction provided for by the foreclosure laws of the applicable state, in which a delinquent borrower's ownership interest in a mortgaged property is terminated and title to the property is transferred to us or to a third party. State foreclosure laws commonly refer to such transactions as foreclosure sales,

Table of Contents

sheriff's sales, or trustee's sales, among other terms. When we, as mortgage holder, acquire a property in this manner, we pay for it by extinguishing some or all of the mortgage debt.

Freddie Mac mortgage-related securities — Securities we issue and guarantee, including PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions.

GAAP — Generally accepted accounting principles in the United States of America.

Ginnie Mae — Government National Mortgage Association, which guarantees the timely payment of principal and interest on mortgage-related securities backed by federally insured or guaranteed mortgage loans, primarily those insured by FHA or guaranteed by the VA.

GSE Act — The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Reform Act.

GSEs — Government sponsored enterprises — Refers to certain legal entities created by the U.S. government, including Freddie Mac, Fannie Mae, and the FHLBs.

HAMP — Home Affordable Modification Program — Refers to the effort under the MHA Program whereby the U.S. government, Freddie Mac and Fannie Mae commit funds to help eligible homeowners avoid foreclosure and keep their homes through mortgage modifications.

HARP — Home Affordable Refinance Program — Refers to the effort under the MHA Program that seeks to help eligible borrowers with existing mortgage loans that are guaranteed by us or Fannie Mae to refinance into loans with more affordable monthly payments and/or fixed-rate terms without obtaining new mortgage insurance in excess of the insurance coverage, if any, that was already in place. Originally, only borrowers who had mortgages sold to Freddie Mac or Fannie Mae with note dates on or before May 31, 2009 with current LTV ratios above 80% (and up to 125%) were eligible to refinance their mortgages under the program. In October 2011, HARP was expanded to allow eligible borrowers who have mortgages with current LTV ratios above 125% to refinance under the program. The relief refinance initiative, under which we also allow borrowers with LTV ratios of 80% and below to participate, is our implementation of HARP for our mortgage loans.

HFA — State or local Housing Finance Agency

HFA initiative — An initiative among Treasury, FHFA, Freddie Mac, and Fannie Mae that commenced in 2009. Under the HFA initiative, we and Fannie Mae provide assistance to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. The HFA initiative includes the NIBP and the TCLFP.

HUD — U.S. Department of Housing and Urban Development — HUD has authority over Freddie Mac with respect to fair lending.

Implied volatility — A measurement of how the value of a financial instrument changes due to changes in the market's expectation of potential changes in future interest rates. A decrease in implied volatility generally increases the estimated fair value of our mortgage assets and decreases the estimated fair value of our callable debt and options-based derivatives, while an increase in implied volatility generally has the opposite effect.

Initial margin — The collateral that we post with a derivatives clearinghouse in order to do business with such clearinghouse. The amount of initial margin varies over time.

Interest-only loan — A mortgage loan that allows the borrower to pay only interest (either fixed-rate or adjustable-rate) for a fixed period of time before principal amortization payments are required to begin. After the end of the interest-only period, the borrower can choose to refinance the loan, pay the principal balance in total, or begin paying the monthly scheduled principal due on the loan.

IRS — Internal Revenue Service

K Certificates — Multifamily regularly-issued, structured pass-through securities backed primarily by recently originated multifamily mortgage loans purchased by Freddie Mac. We categorize K Certificates that we guarantee as Other Guarantee Transactions. See "Other Guarantee Transactions" for more information.

Legacy single-family books — Consists of our 2005-2008 Legacy single-family book and our Pre-2005 Legacy single-family book.

LIBOR — London Interbank Offered Rate

LIHTC partnerships — Low-income housing tax credit partnerships — Prior to 2008, we invested as a limited partner in LIHTC partnerships, which are formed for the purpose of providing funding for affordable multifamily rental properties. These LIHTC partnerships invest directly in limited partnerships that own and operate multifamily rental properties that generate federal income tax credits and deductible operating losses.

Liquidation preference — Generally refers to an amount that holders of preferred securities are entitled to receive out of available assets, upon liquidation of a company. The initial liquidation preference of our senior preferred stock was \$1.0 billion. The aggregate liquidation preference of our senior preferred stock includes the initial liquidation preference plus amounts funded by Treasury under the Purchase Agreement. In addition, dividends not paid in cash are added to the liquidation

Table of Contents

preference of the senior preferred stock. We may make payments to reduce the liquidation preference of the senior preferred stock only in limited circumstances.

Liquidity and contingency operating portfolio — Subset of our cash and other investments portfolio. Consists of liquid non-mortgage assets, including cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and non-mortgage-related securities.

LTV ratio — Loan-to-value ratio — The ratio of the unpaid principal amount of a mortgage loan to the value of the property that serves as collateral for the loan, expressed as a percentage. Mortgage loans with high LTV ratios generally tend to have a higher risk of default and, if a default occurs, a greater risk that the amount of the gross loss will be high compared to loans with lower LTV ratios. We report LTV ratios based solely on the amount of the loan purchased or guaranteed by us, generally excluding any second-lien mortgages (unless we own or guarantee the second lien).

Management and guarantee fee — The fee that we receive for managing and guaranteeing the payment of principal and interest to mortgage security investors, which consists primarily of a combination of fees paid on a monthly basis, as a percentage of the UPB of the underlying mortgage loans, and initial upfront payments, such as delivery fees.

MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations

MHA Program — Making Home Affordable Program — The MHA Program was announced by the Administration in February 2009. The MHA Program is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts and set market standards. The MHA Program includes HARP and HAMP.

Monoline - Companies that provide credit insurance principally covering securitized assets in both the primary insurance and secondary markets.

Mortgage assets — Refers to both mortgage loans and the mortgage-related securities we hold in our mortgage-related investments portfolio.

Mortgage-related investments portfolio — Our investment portfolio, which consists of mortgage-related securities and single-family and multifamily mortgage loans. The size of our mortgage-related investments portfolio under the Purchase Agreement is determined without giving effect to the January 1, 2010 change in accounting guidance related to transfers of financial assets and consolidation of VIEs. Accordingly, for purposes of the portfolio limit, when PCs and certain Other Guarantee Transactions are purchased into the mortgage-related investments portfolio, this is considered the acquisition of assets rather than the reduction of debt.

Mortgage-to-debt OAS — The net OAS between the mortgage and agency debt sectors. This is an important factor in determining the expected level of net interest yield on a new mortgage asset. Higher mortgage-to-debt OAS means that a newly purchased mortgage asset is expected to provide a greater return relative to the cost of the debt issued to fund the purchase of the asset and, therefore, a higher net interest yield. Mortgage-to-debt OAS tends to be higher when there is weak demand for mortgage assets and lower when there is strong demand for mortgage assets.

Multifamily mortgage — A mortgage loan secured by a property with five or more residential rental units and manufactured housing loans.

Multifamily mortgage portfolio — Consists of multifamily mortgage loans held by us on our consolidated balance sheets as well as our guarantee of non-consolidated Freddie Mac mortgage-related securities, and other guarantee commitments, but excluding those underlying our guarantees of HFA bonds under the HFA initiative.

Multifamily new business activity — Represents mortgage loan purchases and issuances of: (a) other guarantee commitments; (b) Other Structured Securities; and (c) certain Other Guarantee Transactions by the Multifamily segment. Excludes issuances of K Certificates.

Net worth (deficit) — The amount by which our total assets exceed (or are less than) our total liabilities as reflected on our consolidated balance sheets prepared in conformity with GAAP.

Net worth sweep dividend, Net Worth Amount, and Capital Reserve Amount — For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment on the senior preferred stock will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less our total liabilities (excluding any

obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend shall accrue or be payable for that quarter. The applicable Capital Reserve Amount was \$2.4 billion for 2014, is \$1.8 billion for 2015, and will be reduced by \$600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero.

New single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated from 2009 to 2015, excluding HARP and other relief refinance mortgages. We do not include relief refinance mortgages,

Table of Contents

including HARP loans, in this book as underwriting procedures for relief refinance mortgages are limited, and, in many cases, do not include all of the changes in underwriting standards we have implemented since 2008.

NIBP — New Issue Bond Program is a component of the HFA initiative in which we and Fannie Mae issued partially-guaranteed pass-through securities to Treasury that are backed by bonds issued by various state and local HFAs. The program provides financing for HFAs to issue new housing bonds. Treasury is obligated to absorb any losses under the program up to a certain level before we are exposed to any losses.

Non-accrual loan — A loan for which we are not accruing interest income. We place mortgage loans on non-accrual status when we believe collectability of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment.

OAS — Option-adjusted spread — An estimate of the incremental yield spread between a particular financial instrument (e.g., a security, loan or derivative contract) and a benchmark yield curve (e.g., LIBOR or agency or U.S. Treasury securities). This includes consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options. When the OAS on a given asset widens, the fair value of that asset will typically decline, all other market factors being equal. The opposite is true when the OAS on a given asset tightens.

Option ARM loan — Mortgage loans that permit a variety of repayment options, including minimum, interest-only, fully amortizing 30-year and fully amortizing 15-year payments. The minimum payment alternative for option ARM loans allows the borrower to make monthly payments that may be less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance. For our non-agency mortgage-related securities that are backed by option ARM loans, we categorize securities as option ARM if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM securities as either subprime or Alt-A securities.

Original LTV Ratio — A credit measure for mortgage loans, calculated as the UPB of the mortgage loan we guarantee including any credit-enhanced portion, divided by the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower's purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation. The existence of a second-lien mortgage reduces the borrower's equity in the home and, therefore, can increase the risk of default and the amount of the gross loss if a default occurs.

OTC — Over-the-counter

Other guarantee commitments — Mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.

Other Guarantee Transactions — Transactions in which third parties transfer non-Freddie Mac mortgage-related securities to trusts specifically created for the purpose of issuing mortgage-related securities. Our primary multifamily Other Guarantee Transaction is the K Certificate. See "K Certificates" for more information. We exclude our securitizations of Ginnie Mae securities and tax-exempt multifamily housing revenue bonds from this classification.

PCs — Participation Certificates — Securities that we issue as part of a securitization transaction. Typically we purchase mortgage loans from sellers, place a pool of loans into a PC trust and issue PCs from that trust. The PCs are generally transferred to the seller of the mortgage loans in consideration of the loans or are sold to third-party investors or retained by us if we purchased the mortgage loans for cash.

Performing Loan — A mortgage loan where the borrower is less than three monthly payments past due, but not in the process of foreclosure. Conversely, a non-performing loan is one where the borrower is three months or more past due or is in the process of foreclosure. A reperforming loan is a mortgage loan that was previously classified as non-performing, but the borrower subsequently made payments such that the loan returns to less than three months past due.

PMVS — Portfolio Market Value Sensitivity — One of our primary interest-rate risk measures. PMVS measures are estimates of the amount of average potential pre-tax loss in the market value of our financial assets and liabilities due to parallel (PMVS-L) and non-parallel (PMVS-YC) changes in LIBOR.

Pre-2005 Legacy single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated in 2004 and prior.

Primary mortgage market — The market where lenders originate mortgage loans and lend funds to borrowers. We do not lend money directly to homeowners and do not participate in this market.

Purchase Agreement / Senior Preferred Stock Purchase Agreement — An agreement the Conservator, acting on our behalf, entered into with Treasury on September 7, 2008, relating to Treasury's purchase of senior preferred stock, which was subsequently amended and restated on September 26, 2008 and further amended on May 6, 2009, December 24, 2009, and August 17, 2012.

Table of Contents

Recorded Investment — The dollar amount of a mortgage loan recorded on our consolidated balance sheets, excluding any valuation allowance, such as the allowance for loan losses, but which does not reflect direct write-downs of the investment. Recorded investment excludes accrued interest income.

Recoveries of charge-offs — Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or third parties through certain credit enhancements or we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a foreclosure transfer or a foreclosure alternative.

Reform Act — The Federal Housing Finance Regulatory Reform Act of 2008, which, among other things, amended the GSE Act by establishing a single regulator, FHFA, for Freddie Mac, Fannie Mae, and the FHLBs.

Relief refinance mortgage — A single-family mortgage loan delivered to us for purchase or guarantee that meets the criteria of the Freddie Mac Relief Refinance MortgageSM initiative. Part of this initiative is our implementation of HARP for our loans, and relief refinance options are also available for certain non-HARP loans. Although HARP is targeted at borrowers with current LTV ratios above 80%, our initiative also allows borrowers with LTV ratios of 80% and below to participate.

REMIC — Real Estate Mortgage Investment Conduit — A type of multiclass mortgage-related security that divides the cash flows (principal and interest) of the underlying mortgage-related assets into two or more classes that meet the investment criteria and portfolio needs of different investors.

REMICs and Other Structured Securities (or in the case of Multifamily securities, Other Structured Securities) — Single- and multiclass securities issued by Freddie Mac that represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. REMICs and Other Structured Securities that are single-class securities pass through the cash flows (principal and interest) on the underlying mortgage-related assets. REMICs and Other Structured Securities that are multiclass securities divide the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors. Our principal multiclass securities qualify for tax treatment as REMICs. We include our securitizations of Ginnie Mae securities and tax-exempt multifamily housing revenue bonds in this classification.

REO — Real estate owned — Real estate which we have acquired through foreclosure or through a deed in lieu of foreclosure.

S&P — Standard & Poor's

SEC — Securities and Exchange Commission

Secondary mortgage market — A market consisting of institutions engaged in buying and selling mortgages in the form of whole loans (i.e., mortgage loans that have not been securitized) and mortgage-related securities. We participate in the secondary mortgage market by issuing guaranteed mortgage-related securities, principally PCs, and by purchasing mortgage loans and mortgage-related securities for investment.

Senior preferred stock — The shares of Variable Liquidation Preference Senior Preferred Stock issued to Treasury under the Purchase Agreement.

Seriously delinquent — Single-family mortgage loans that are three monthly payments or more past due or in the process of foreclosure as reported to us by our servicers.

Short sale — Typically an alternative to foreclosure consisting of a sale of a mortgaged property in which the homeowner sells the home at market value and the lender accepts proceeds (sometimes together with an additional payment or promissory note from the borrower) that are less than the outstanding mortgage indebtedness in full satisfaction of the loan.

Single-family credit guarantee portfolio — Consists of unsecuritized single-family mortgage loans, single-family mortgage loans held by consolidated trusts, and single-family mortgage loans underlying non-consolidated Other Guarantee Transactions and loans covered by other guarantee commitments. Excludes our REMICs and Other Structured Securities that are backed by Ginnie Mae Certificates and our guarantees under the HFA initiative because these guarantees do not expose us to meaningful amounts of credit risk due to the credit enhancement provided on them by the U.S. government.

Single-family mortgage — A mortgage loan secured by a property containing four or fewer residential dwelling units.

Spread — The difference between the yields of two debt securities, or the difference between the yield of a debt security and a benchmark yield, such as LIBOR.

STACR debt note — Structured Agency Credit Risk transaction, in which we issue and sell debt securities, the principal balance of which is subject to the performance of a reference pool of single-family mortgage loans owned or guaranteed by Freddie Mac.

Strips — Mortgage pass-through securities created by separating the principal and interest payments on a pool of mortgage loans. A principal-only strip entitles the security holder to principal cash flows, but no interest cash flows, from the underlying mortgage loans. An interest-only strip entitles the security holder to interest cash flows, but no principal cash flows, from the underlying mortgage loans.

Table of Contents

Subprime — Participants in the mortgage market may characterize single-family mortgage loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Subprime generally refers to the credit risk classification of a loan. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include, among other factors, a combination of high LTV ratios, low credit scores or originations using lower underwriting standards, such as limited or no documentation of a borrower's income. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. Notwithstanding our historical characterizations of the single family credit guarantee portfolio, certain security collateral underlying our Other Guarantee Transactions has been identified as subprime based on information provided to Freddie Mac when the transactions were entered into. We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions.

Swaption — An option contract to enter into an interest-rate swap. In exchange for an option premium, a buyer obtains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.

TBA — To be announced

TCLFP — Temporary Credit and Liquidity Facility Program is a component of the HFA initiative in which we and Fannie Mae issued credit and liquidity guarantees to holders of variable-rate demand obligations issued by various state and local HFAs. Treasury is obligated to absorb any losses under the program up to a certain level before we are exposed to any losses. The program was scheduled to expire on December 31, 2012. However, Treasury gave participants the option to extend their individual TCLFP facilities to December 31, 2015. Certain participants elected to extend their TCLFP facilities to December 2015.

TDR — Troubled debt restructuring — A restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Total other comprehensive income (loss) (or other comprehensive income (loss)) — Consists of the after-tax changes in: (a) the unrealized gains and losses on available-for-sale securities; (b) the effective portion of derivatives accounted for as cash flow hedge relationships; and (c) defined benefit plans.

Total mortgage portfolio — Includes mortgage loans and mortgage-related securities held on our consolidated balance sheets as well as the balances of our non-consolidated issued and guaranteed single-class and multiclass securities, and other mortgage-related financial guarantees issued to third parties.

Treasury — U.S. Department of the Treasury

UPB — Unpaid principal balance — Mortgage loan UPB amounts in this report have not been reduced by charge-offs recognized prior to the loan being subject to a foreclosure transfer, deed in lieu of foreclosure, or short sale transaction.

USDA — U.S. Department of Agriculture

VA — U.S. Department of Veterans Affairs

Variation margin — Payments we make to or receive from a derivatives clearinghouse based on the change in fair value of a derivative instrument. Variation margin is typically transferred within one business day.

VIE — Variable Interest Entity — A VIE is an entity: (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party; or (b) where the group of equity holders does not have: (i) the ability to make significant decisions about the entity's activities; (ii) the obligation to absorb the entity's expected losses; or (iii) the right to receive the entity's expected residual returns.

Warrant — Refers to the warrant we issued to Treasury on September 7, 2008 pursuant to the Purchase Agreement. The warrant provides Treasury the ability to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of Freddie Mac common stock outstanding on a fully diluted basis on the date of exercise.

Workforce housing — Multifamily housing that is affordable to the majority of low to middle income households.

Workout, or mortgage loan workout — A workout is either a home retention action, which is either a loan modification, repayment plan, or forbearance agreement or a foreclosure alternative, which is either a short sale or a deed in lieu of foreclosure.

XBRL — eXtensible Business Reporting Language

Yield curve — A graphical display of the relationship between yields and maturity dates for bonds of the same credit quality. The slope of the yield curve is an important factor in determining the level of net interest yield on a new mortgage asset, both initially and over time. For example, if a mortgage asset is purchased when the yield curve is inverted (i.e., short-term interest rates higher than long-term interest rates), our net interest yield on the asset will tend to be lower initially and then increase

Table of Contents

over time. Likewise, if a mortgage asset is purchased when the yield curve is steep (i.e., short-term interest rates lower than long-term interest rates), our net interest yield on the asset will tend to be higher initially and then decrease over time.

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description*
3.1	Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated July 13, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, as filed on July 15, 2015)
10.1	2015 Executive Management Compensation Program (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2015, as filed on August 4, 2015)
10.2	First Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan II (effective January 1, 2014) (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the three months ended June 30, 2015, as filed on August 4, 2015)
12.1	Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

* The SEC file numbers for the Registrant's Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are 000-53330 and 001-34139.