

FEDERAL HOME LOAN MORTGAGE CORP  
Form 10-Q  
August 07, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2013

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**  
*(State or other jurisdiction of  
incorporation or organization)*

**8200 Jones Branch Drive  
McLean, Virginia 22102-3110**  
*(Address of principal executive  
offices, including zip code)*

**52-0904874**  
*(I.R.S. Employer  
Identification No.)*

**(703) 903-2000**  
*(Registrant's telephone number,  
including area code)*

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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 July 24, 2013, there were 650,039,533 shares of the registrant's common stock outstanding.

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**PART I FINANCIAL INFORMATION**

*We continue to operate under the conservatorship that commenced on September 6, 2008, under the direction of FHFA as our Conservator. The Conservator succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any shareholder, officer or director thereof, with respect to the company and its assets. The Conservator has delegated certain authority to our Board of Directors to oversee, and management to conduct, day-to-day operations. The directors serve on behalf of, and exercise authority as directed by, the Conservator. See *BUSINESS Conservatorship and Related Matters* in our Annual Report on Form 10-K for the year ended December 31, 2012, or 2012 Annual Report, for information on the terms of the conservatorship, the powers of the Conservator, and related matters, including the terms of our Purchase Agreement with Treasury.*

*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 and 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 2012 Annual Report, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013; and (b) the *RISK FACTORS* and *BUSINESS* sections of our 2012 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 consolidated financial statements and related notes for the three and six months ended June 30, 2013 included in *FINANCIAL STATEMENTS* and our 2012 Annual Report.*

**EXECUTIVE SUMMARY**

**Overview**

Freddie Mac is a GSE chartered by Congress in 1970 with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. We have maintained a consistent market presence since our inception, providing mortgage liquidity in a wide range of economic environments. We are working to support the recovery of the housing market and the nation's economy by providing essential liquidity to the mortgage market and helping to stem the rate of foreclosures. We believe our actions are helping communities across the country by providing America's families with access to mortgage funding at low rates while helping distressed borrowers keep their homes and avoid foreclosure, where feasible.

***Summary of Financial Results***

During the second quarter of 2013, we continued to observe improvement in the housing market, which contributed positively to our financial results. Our comprehensive income for the second quarter of 2013 was \$4.4 billion, consisting of \$5.0 billion of net income and \$(631) million of other comprehensive loss. By comparison, our comprehensive income for the second quarter of 2012 was \$2.9 billion, consisting of \$3.0 billion of net income and \$(128) million of other comprehensive loss.

Our total equity was \$7.4 billion at June 30, 2013, reflecting our total equity balance of \$10.0 billion at March 31, 2013, comprehensive income of \$4.4 billion for the second quarter of 2013, and a \$7.0 billion dividend payment on the senior preferred stock in June 2013 based on our Net Worth Amount at March 31, 2013. As a result of our positive net worth at June 30, 2013, no draw is being requested from Treasury under the Purchase Agreement for the second quarter of 2013. Based on our Net Worth Amount at June 30, 2013, our dividend obligation to Treasury in September 2013 will be \$4.4 billion.

**Our Primary Business Objectives**

We are focused on the following primary business objectives: (a) providing credit availability for mortgages and maintaining foreclosure prevention activities; (b) minimizing our credit losses; (c) developing mortgage market





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enhancements in support of a new infrastructure for the secondary mortgage market; (d) maintaining sound credit quality on the loans we purchase or guarantee; (e) contracting the dominant presence of the GSEs in the marketplace; and (f) strengthening our infrastructure and improving overall efficiency.

Our business objectives reflect direction we have received from the Conservator, including the 2013 Conservatorship Scorecard. The 2013 Conservatorship Scorecard details specific priorities for Freddie Mac and Fannie Mae in 2013 that build upon the three strategic goals announced in FHFA's Strategic Plan for Freddie Mac and Fannie Mae: (a) build a new infrastructure for the secondary mortgage market; (b) gradually contract Freddie Mac and Fannie Mae's dominant presence in the marketplace while simplifying and shrinking their operations; and (c) maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We continue to align our resources and internal business plans to meet the goals and objectives provided to us by FHFA. For information on the 2013 Conservatorship Scorecard and the Strategic Plan, see our current report on Form 8-K dated March 8, 2013 and BUSINESS Regulation and Supervision Legislative and Regulatory Developments FHFA's Strategic Plan for Freddie Mac and Fannie Mae Conservatorships in our 2012 Annual Report.

***Providing Credit Availability for Mortgages and Maintaining Foreclosure Prevention Activities***

Our consistent market presence provides lenders with a constant source of liquidity for conforming mortgage products even when other sources of capital have withdrawn. We believe this liquidity provides our customers with confidence to continue lending in difficult environments. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed more than 90% of the single-family conforming mortgages originated during the first half of 2013. We also enable mortgage originators to offer homebuyers and homeowners lower mortgage rates on conforming loan products, in part because of the value investors place on GSE-guaranteed mortgage-related securities. We estimate that borrowers were paying an average of 18 basis points less on 30-year, fixed-rate conforming loans than on non-conforming loans in June 2013. These estimates are based on data provided by HSH Associates, a third-party provider of mortgage market data.

During the three and six months ended June 30, 2013, we purchased or issued other guarantee commitments for \$129.9 billion and \$261.7 billion in UPB of single-family conforming mortgage loans, representing approximately 646,000 and 1,281,000 homes, respectively.

We are focused on reducing the number of foreclosures and helping to keep families in their homes. Since 2009, we have helped approximately 872,000 borrowers experiencing hardship complete a loan workout. Our relief refinance initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), is a significant part of our effort to keep families in their homes. We purchased \$41.8 billion and \$40.5 billion in UPB of HARP loans in the first half of 2013 and 2012, respectively. We have purchased HARP loans provided to more than 1.1 million borrowers since the initiative began in 2009, including approximately 223,000 borrowers during the first half of 2013.

Under our loan workout programs, our servicers contact borrowers experiencing hardship with a goal of helping them stay in their homes or avoid foreclosure. Our servicers seek and also facilitate the completion of foreclosure alternatives when a home retention solution is not possible. In March 2013, as part of the servicing alignment initiative, we announced a new streamlined modification initiative, which provides an additional modification opportunity to certain borrowers who are at least 90 (but not more than 720) days delinquent. This initiative was implemented in July 2013 (with earlier adoption permitted). See RISK MANAGEMENT Credit Risk Mortgage Credit Risk Single-Family Mortgage Credit Risk for more information about loss mitigation activities and our efforts to provide credit availability, including through our loan modification initiatives, and our relief refinance mortgage initiative, which includes HARP.

Short sale activity as a percentage of the combined total of short sales and foreclosure transfers increased from 31% in the first half of 2012 to 42% in the first half of 2013. Our short sale activity has remained high compared to historical levels while the volume of foreclosures has declined in recent quarters. Due to changes in our short sale process that we made in the second half of 2012, we believe our short sale activity will continue to remain high for the remainder of 2013.

The table below presents our single-family loan workout activities for the last five quarters.

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**Table 1 Total Single-Family Loan Workout Volumes<sup>(4)</sup>**

	06/30/2013	03/31/2013	For the Three Months Ended		06/30/2012
			12/31/2012	09/30/2012	
	(number of loans)				
Loan modifications <sup>(2)</sup>	19,277	20,613	19,898	20,864	15,142
Repayment plans	7,268	7,644	6,964	7,099	8,712
Forbearance agreements <sup>(3)</sup>	3,198	3,104	2,442	2,190	4,738
Short sales and deed in lieu of foreclosure transactions	11,727	14,157	13,849	14,383	12,531
<b>Total single-family loan workouts</b>	<b>41,470</b>	<b>45,518</b>	<b>43,153</b>	<b>44,536</b>	