FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 03, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2016
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 McLean, Virginia 22102-3110	52-0904874	(703) 903-2000
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	(Registrant's telephone number, including area code)

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. ý 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). ý 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 ý	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 ý
As of April 20, 2016, there were 650,046,828 shares of the registrant's common stock outstanding.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 the "Forward-Looking Statements" and "Risk Factors" sections of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015, or 2015 Annual Report, and the "Business" section of our 2015 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "Glossary" of our 2015 Annual Report.

You should read the following MD&A in conjunction with our 2015 Annual Report and our condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2016 included in "Financial Statements."

EXECUTIVE SUMMARY

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 lenders. In most instances, we package these 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 loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market, which we do primarily by providing financing for workforce housing. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are working with FHFA, our customers and the industry to build a better housing finance system for the nation.

CONSOLIDATED FINANCIAL RESULTS

Comprehensive income (loss) was $(200) million during the three months ended March 31, 2016 compared to $746 million during the three months ended March 31, 2015. The decline in comprehensive income (loss) was primarily driven by two market-related items, including an estimated:

- $(0.9) billion resulting from a larger decline in interest rates; and
- $(0.6) billion resulting from widening spreads.

Our total equity was $1.0 billion at March 31, 2016. Because our net worth was positive we are not requesting a draw from Treasury under the Purchase Agreement for the first quarter of 2016. Through March 31, 2016, our cumulative senior preferred stock dividend payments totaled $98.2 billion. Under the

Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains $72.3 billion. The amount of available funding remaining under the Purchase Agreement is $140.5 billion, and would be reduced by any future draws.

VARIABILITY OF EARNINGS

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

- 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 (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our GAAP earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at March 31, 2016, we generally recognize fair value losses in earnings when interest rates decline. This volatility generally is not indicative of the underlying economics of our business. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."
- Spread Volatility — Spread volatility (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or OAS, is the risk associated with changes in the excess of interest rates over benchmark rates. We hold assets and liabilities that expose us to spread volatility, which may contribute to significant earnings volatility. For financial assets and liabilities measured at fair value, we generally recognize fair value losses when spreads widen.

The variability of earnings and the declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) increase the risk of our having a negative net worth and being required to draw from Treasury. We currently face a risk of a draw for a variety of reasons, including if we were to experience a large decrease in interest rates coupled with a large widening of spreads. We continue to assess certain transactions and activities that may reduce or limit our exposure to this variability.

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. The Purchase Agreement also requires our future profits to effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury. Consequently, our ability to access funds from Treasury under the

Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct our normal business activities.

KEY ECONOMIC INDICATORS

The following graphs and related discussion present certain macroeconomic indicators that can significantly affect our business and financial results.

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

(December 2000 = 100)

COMMENTARY

- Home prices continued to appreciate during the three months ended March 31, 2016, increasing 1.5%, compared to an increase of 1.6% during the three months ended March 31, 2015, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.
- National home prices at March 31, 2016 were approximately 5% below their peak level of 167 reached in June 2006, based on our index.

INTEREST RATES
KEY MARKET INTEREST RATES

COMMENTARY

- Mortgage interest rates, as indicated by the 30-year PMMS rate, decreased during the three months ended March 31, 2016. We expect mortgage interest rates to remain low in 2016, but to begin slowly trending up in the second half of the year.
- The average 30-year PMMS rate was 3.74% during the first quarter of 2016, compared to 3.72% during the first quarter of 2015.
- Longer-term interest rates, as indicated by the 10-year LIBOR and the 10-year Treasury rate, declined sharply during the three months ended March 31, 2016. The decline in longer-term interest rates coincided with worldwide economic growth forecast downgrades from the International Monetary Fund, increased financial market volatility, investors' flight-to-safety of longer-term U.S. Treasuries, and market expectations that the Federal Reserve would raise its short-term interest rate less rapidly than previously anticipated.

UNEMPLOYMENT RATE
UNEMPLOYMENT RATE AND JOB CREATION

Source: U.S. Bureau of Labor Statistics

COMMENTARY

- An average of approximately 209,000 monthly net new jobs were added to the economy during the first quarter of 2016. The steady flow of jobs has helped to stabilize the unemployment rate at 5%.

CONSOLIDATED RESULTS OF OPERATIONS

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

COMPARISON

The table below compares our consolidated results of operations for the three months ended March 31, 2016 and March 31, 2015.

	Three Months Ended March 31,		Change	
(dollars in millions)	2016	2015	$	%
Net interest income	$3,405	$3,647	$(242)	(7)%
Benefit (provision) for credit losses	467	499	(32)	(6)%
Net interest income after benefit (provision) for credit losses	3,872	4,146	(274)	(7)%
Non-interest income (loss):				
Gains (losses) on extinguishment of debt	(55)	(79)	24	(30)%
Derivative gains (losses)	(4,561)	(2,403)	(2,158)	90%
Net impairment of available-for-sale securities recognized in earnings	(57)	(93)	36	(39)%
Other gains (losses) on investment securities recognized in earnings	303	417	(114)	(27)%
Other income (loss)	947	11	936	8,509%
Total non-interest income (loss)	(3,423)	(2,147)	(1,276)	59%
Non-interest expense:				
Administrative expense	(448)	(451)	3	(1)%
REO operations (expense) income	(84)	(75)	(9)	12%
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(272)	(222)	(50)	23%
Other (expense) income	(153)	(463)	310	(67)%
Total non-interest expense	(957)	(1,211)	254	(21)%
(Loss) income before income tax benefit (expense)	(508)	788	(1,296)	(164)%
Income tax benefit (expense)	154	(264)	418	(158)%
Net (loss) income	(354)	524	(878)	(168)%
Total other comprehensive income (loss), net of taxes and reclassification adjustments	154	222	(68)	(31)%
Comprehensive (loss) income	$(200)	$746	$(946)	(127)%

Key Drivers:

See "Net Interest Income," "Benefit (Provision) for Credit Losses," "Derivative Gains (Losses)," and "Other Comprehensive Income (Loss)" for a discussion of those items. Key drivers for other line items during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 include:

- Other gains (losses) on investment securities recognized in earnings decreased due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decrease in sales was attributable to increased market volatility and weaker investor demand for this product type.
- Other income (loss) increased due to the following:

Reduced lower-of-cost-or-fair-value adjustments as we transferred fewer seriously delinquent

single-family loans from held-for-investment to held-for-sale;
- Minimal gains on STACR debt notes carried at fair value as a result of relatively unchanged spreads between STACR yields and LIBOR during the three months ended March 31, 2016 compared to losses as a result of tightened spreads during the three months ended March 31, 2015; and
- Increased gains on multifamily mortgage loans for which we have elected the fair value option driven by a larger decline in interest rates in the current period versus during the first quarter of 2015.

- Other expense decreased primarily driven by fewer reclassifications of seriously delinquent single-family loans from held-for-investment to held-for-sale. See "Loan Reclassifications" below for the effect of these loan reclassifications on pre-tax net income.
- Income tax benefit reflects a pre-tax net loss and income tax expense reflects pre-tax net income in the respective periods.

The three items discussed below affected multiple line items on our consolidated results of operations.

LOAN RECLASSIFICATIONS

During the three months ended March 31, 2016 and March 31, 2015, we reclassified $0.4 billion and $3.6 billion, respectively, in UPB of seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

	Three Months Ended March 31,	
(in millions)	2016	2015
Benefit for credit losses	$64	$692
Other income (loss) - lower-of-cost-or-fair-value adjustment	(67)	(581)
Other (expense) income - property taxes and insurance associated with these loans	(31)	(349)
Effect on income before income tax (expense) benefit	$(34)	$(238)

INTEREST-RATE RISK MANAGEMENT ACTIVITIES

We fund our business activities primarily through the issuance of unsecured other debt. The type of debt we issue is based on a variety of factors including market conditions and our liquidity requirements.

We currently favor a mix of shorter- and medium-term debt and derivatives to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt, and it provides greater flexibility and opportunity to match the duration of our assets and liabilities in the future as we reduce the mortgage-related investments portfolio in accordance with the requirements of the Purchase Agreement and FHFA.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income, after considering the accrual of periodic cash settlements (which is the economic equivalent of interest expense), and the extent to which the effect of interest rate changes on our derivatives was offset by their effect on other financial instruments. The estimated net effect on comprehensive income is essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value.

(in billions)	Three Months Ended March 31, 2016	2015
Components of derivative gains (losses)		
Derivative gains (losses)	$(4.6)	$(2.4)
Less: Accrual of periodic cash settlements	(0.5)	(0.6)
Derivative fair value changes	$(4.1)	$(1.8)
Estimated Net Interest Rate Effect		
Interest rate effect on derivative fair values	$(4.0)	$(1.7)
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	1.9	0.9
Income tax benefit (expense)	0.7	0.3
Estimated Net Interest Rate Effect on Comprehensive income	$(1.4)	$(0.5)

As this table demonstrates, the estimated net effect of derivatives used in our interest-rate risk management activities on our comprehensive income is volatile, and can be significant. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

CHANGES IN SPREADS

Comprehensive income was affected by changes in spreads by an estimated $(0.6) billion and $0.0 billion (after-tax) during the three months ended March 31, 2016 and March 31, 2015, respectively. In the current period, the negative effect was primarily due to spread widening on our non-agency mortgage-related investments measured at fair value. During the three months ended March 31, 2015, there were minimal changes to comprehensive income due to spread tightening on our STACR debt notes that was largely offset by spreads tightening on our mortgage-related investments.

NET INTEREST INCOME
NET INTEREST YIELD ANALYSIS

The table below presents an analysis of interest-earning assets and interest-bearing liabilities.

	Three Months Ended March 31,					
	2016			2015		
(dollars in millions)	Average Balance[(1)]	Interest Income (Expense)	Average Rate	Average Balance[(1)]	Interest Income (Expense)	Average Rate
Interest-earning assets:						
Cash and cash equivalents	$11,726	$7	0.25 %	$15,353	$3	0.07 %
Securities purchased under agreements to resell	57,921	50	0.34	47,430	8	0.07
Mortgage-related securities:						
Mortgage-related securities	201,604	1,916	3.80	244,662	2,366	3.87
Extinguishment of PCs held by Freddie Mac	(105,097)	(960)	(3.65)	(111,988)	(1,034)	(3.69)
Total mortgage-related securities, net	96,507	956	3.96	132,674	1,332	4.02
Non-mortgage-related securities	14,261	13	0.36	9,419	3	0.12
Loans held by consolidated trusts[(1)]	1,630,646	14,261	3.50	1,563,272	13,879	3.55
Loans held by Freddie Mac[(1)]	145,531	1,557	4.28	165,168	1,575	3.81
Total interest-earning assets	$1,956,592	$16,844	3.45	$1,933,316	$16,800	3.47
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,653,105	$(12,751)	(3.09)	$1,583,630	$(12,521)	(3.16)
Extinguishment of PCs held by Freddie Mac	(105,097)	960	3.65	(111,988)	1,034	3.69
Total debt securities of consolidated trusts held by third parties	1,548,008	(11,791)	(3.05)	1,471,642	(11,487)	(3.12)
Other debt:						
Short-term debt	100,871	(93)	(0.37)	121,728	(38)	(0.12)
Long-term debt	300,221	(1,504)	(2.00)	324,655	(1,563)	(1.93)
Total other debt	401,092	(1,597)	(1.59)	446,383	(1,601)	(1.43)
Total interest-bearing liabilities	1,949,100	(13,388)	(2.75)	1,918,025	(13,088)	(2.73)
Expense related to derivatives	—	(51)	(0.01)	—	(65)	(0.01)
Impact of net non-interest-bearing funding	7,492	—	0.01	15,291	—	0.02
Total funding of interest-earning assets	$1,956,592	$(13,439)	(2.75)	$1,933,316	$(13,153)	(2.72)
Net interest income/yield		$3,405	0.70		$3,647	0.75

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were $485 million and $506 million for loans held by consolidated trusts and were $81 million and $66 million for loans held by Freddie Mac during the three months ended March 31, 2016 and March 31, 2015, respectively.

COMPONENTS OF NET INTEREST INCOME

The table below presents the components of net interest income.

(dollars in millions)	Three Months Ended March 31, 2016	2015	Change $	%
Contractual net interest income:				
Management and guarantee fee income	$710	$608	$102	17 %
Management and guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	267	217	50	23 %
Other contractual net interest income	1,840	2,222	(382)	(17)%
Total contractual net interest income	2,817	3,047	(230)	(8)%
Net amortization - loans and debt securities of consolidated trusts	533	533	—	— %
Net amortization - other assets and debt	106	132	(26)	(20)%
Expense related to derivatives	(51)	(65)	14	(22)%
Net interest income	$3,405	$3,647	$(242)	(7)%

Key Drivers:

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

- Management and guarantee fee income (contractual) increased, as the rates and volume of our single-family credit guarantee business continued to increase.
- Other contractual net interest income decreased, as we continued to reduce the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA.

BENEFIT (PROVISION) FOR CREDIT LOSSES

The benefit (provision) for credit losses predominantly relates to single-family loans and includes components for both collectively and individually impaired loans.

The table below presents the components of our benefit (provision) for credit losses.

	Three Months Ended March 31,		Change	
(dollars in billions)	2016	2015	$	%
Provision for newly impaired loans	$(0.2)	$(0.2)	$—	—%
Amortization of interest rate concessions	0.3	0.3	—	—%
Reclassifications of held-for-investment loans to held-for-sale loans	0.1	0.7	(0.6)	(86)%
Other, including changes in estimated default probability and loss severity	0.3	(0.3)	0.6	(200)%
Benefit (provision) for credit losses	$0.5	$0.5	$—	—%

Key Drivers:

Benefit for credit losses remained unchanged during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, but there were changes in its components primarily due to:

- Reclassification of fewer seriously delinquent single-family loans from held-for-investment to held-for-sale. During the three months ended March 31, 2016, $0.4 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to $3.6 billion during the three months ended March 31, 2015. See "Loan Reclassifications" for the effect of these loan reclassifications on pre-tax net income; and
- Improvement in estimated probability of default and loss severity for single-family loans.

DERIVATIVE GAINS (LOSSES)

While our sensitivity to interest rates on an economic basis remains low based on our models, our exposure to earnings volatility resulting from our use of derivatives has increased in recent years as we have changed our derivative portfolio to align with the changing duration of our hedged assets and liabilities. We believe the impact of derivatives on our GAAP financial results should be considered in the context of our overall interest-rate risk profile, including our PMVS and duration gap results. For more information about our interest-rate risk management activities and the sensitivity of reported earnings to those activities, see "Risk Management - Interest-Rate Risk and Other Market Risks."

The table below presents the components of derivative gains (losses).

	Three Months Ended March 31,		Change	
(dollars in millions)	2016	2015	$	%
Fair value changes:				
Change in interest-rate swaps	$(5,690)	$(2,661)	$(3,029)	114 %
Change in option-based derivatives	1,935	1,016	919	90 %
Accrual of periodic cash settlements	(490)	(571)	81	(14)%
Other	(316)	(187)	(129)	69 %
Derivative gains (losses)	$(4,561)	$(2,403)	$(2,158)	90 %

Key Drivers:

- We recognized derivative fair value losses during the three months ended March 31, 2016 and March 31, 2015, primarily due to declines in the 10-year par swap rate of 54 basis points and 26 basis points, respectively, in each period. See "Our Business Segments - Investments - Market Conditions" for more information about par swap rates.

OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the attribution of the other comprehensive income (loss) reported in our condensed consolidated statements of comprehensive income.

	Three Months Ended March 31,		Change	
(in millions)	2016	2015	$	%
Other comprehensive income, excluding accretion and reclassifications	$221	$463	$(242)	(52)%
Accretion due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(90)	(126)	36	(29)%
Reclassifications from AOCI	23	(115)	138	(120)%
Total other comprehensive income (loss)	$154	$222	$(68)	(31)%

Key Drivers:

Other comprehensive income declined during the three months ended March 31, 2016, compared to the three months ended March 31, 2015, primarily due to:

- Losses resulting from spread widening for our non-agency mortgage-related securities, partially offset by gains resulting from a larger decline in longer-term interest rates; and
- Reclassification of net unrealized losses from AOCI to earnings during 2016 due to fewer sales and lower pricing of our non-agency mortgage-related securities. The declines in both sales and pricing were attributable to increased market volatility and weaker demand for this product type. We reclassified net unrealized gains during 2015 due to greater sales and higher pricing, as a result of declining longer-term interest rates and stabilized collateral performance.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

(dollars in millions)	March 31, 2016	December 31, 2015	Change $	Change %
Assets:				
Cash and cash equivalents	$6,158	$ 5,595	$563	10 %
Restricted cash and cash equivalents	16,671	14,533	2,138	15 %
Securities purchased under agreements to resell	40,098	63,644	(23,546)	(37)%
Subtotal	62,927	83,772	(20,845)	(25)%
Investments in securities	107,595	114,215	(6,620)	(6)%
Mortgage loans, net	1,762,633	1,754,193	8,440	— %
Accrued interest receivable	6,091	6,074	17	— %
Derivative assets, net	814	395	419	106 %
Real estate owned, net	1,571	1,725	(154)	(9)%
Deferred tax assets, net	18,123	18,205	(82)	— %
Other assets	9,346	7,313	2,033	28 %
Total assets	$1,969,100	$ 1,985,892	$(16,792)	(1)%
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$6,047	$ 6,183	$(136)	(2)%
Debt, net	1,955,618	1,970,269	(14,651)	(1)%
Derivative liabilities, net	1,632	1,254	378	30 %
Other liabilities	4,803	5,246	(443)	(8)%
Total liabilities	1,968,100	1,982,952	(14,852)	(1)%
Total equity	1,000	2,940	(1,940)	(66)%
Total liabilities and equity	$1,969,100	$ 1,985,892	$(16,792)	(1)%

Key Drivers:

As of March 31, 2016 compared to December 31, 2015:

- Cash and cash equivalents, restricted cash and cash equivalents, and securities purchased under agreements to resell affect one another, so the changes in the balances should be viewed together. The combined balance declined due to reduced near-term cash needs.
- Investments in securities declined as we continue to reduce our less liquid mortgage-related securities pursuant to the limits on the size of our portfolio, and we reduced our non-mortgage-related investments portfolio due to a decrease in our near-term cash needs.
- Real estate owned, net continued to decline as we continued to sell our existing inventory and the pace of new REO acquisitions slowed as our population of seriously delinquent loans declined.
- Other assets increased as receivables from servicers increased driven by borrower prepayment activity. Additionally, our current income tax receivable also contributed to the increase, as our net loss during the three months ended March 31, 2016 reduced our estimated tax liability.
- Debt, net decreased as we continued to reduce other debt along with the decline in our mortgage-related investments portfolio. This decrease was partially offset by an increase in debt securities of consolidated trusts held by third parties.

- Total equity decreased primarily as a result of a comprehensive loss during the three months ended March 31, 2016 compared to comprehensive income during the three months ended December 31, 2015.

OUR BUSINESS SEGMENTS

We have three reportable segments, which are based on the way we manage our business. Certain activities that are not part of a reportable segment are included in the All Other category.

- Single-family Guarantee - reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk.
- Multifamily - reflects results from our purchase, investment, securitization, and guarantee activities in multifamily loans and securities, and the management of multifamily mortgage credit risk.
- Investments - reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily investments and single-family seriously delinquent loans), treasury function, and interest-rate risk.
- All Other - consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments.

SEGMENT EARNINGS

During the three months ended March 31, 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Investments segments. Prior period results have been revised to conform to the current period presentation. For more information on these changes, see Note 11.

SEGMENT COMPREHENSIVE INCOME

The table below shows our comprehensive income by segment, including the All Other category.

SINGLE-FAMILY GUARANTEE
MARKET CONDITIONS

The following graphs and related discussion present certain market indicators that can significantly affect the business and financial results of our Single-family Guarantee segment.

U.S. Single-Family Originations
Source: Inside Mortgage Finance dated April 28, 2016.

Single-Family Serious Delinquency Rates
Source: National Delinquency Survey from the Mortgage Bankers Association. The rates are as of December 31, 2015 (latest available information).

Commentary

- Single-family loan origination volumes in the U.S. decreased during the first quarter of 2016 compared to the first quarter of 2015, driven by a decrease in refinancing activity.
- Single-family serious delinquency (SDQ) rates in the U.S. continued to decline due to macroeconomic factors, such as a stable labor market and continued home price appreciation.

BUSINESS RESULTS

The following tables, graphs and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

Single-Family Loan Purchases and Guarantees

Percentage of Single-Family Loan Purchases and Guarantees by Loan Purpose

Commentary

- Our loan purchase activity decreased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 primarily due to a decrease in refinance loan purchase volume. During the latter part of 2015, mortgage interest rates declined at a slower pace compared to the latter part of 2014. When mortgage interest rates decline, there can be a lag of up to three months between the time the borrower refinances and when we purchase the loan.

Single-family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio Commentary

- The Core single-family book grew to 68% of the single-family credit guarantee portfolio at March 31, 2016 compared to 66% at December 31, 2015. The Core single-family book consists of loans that were originated since 2008, excluding HARP and other relief refinance loans.
- The HARP and other relief refinance book represented an additional 17% of the single-family credit guarantee portfolio at March 31, 2016 compared to 18% at December 31, 2015.
- The Legacy single-family book declined to 15% of the single-family credit guarantee portfolio at March 31, 2016 compared to 16% at December 31, 2015.
- We had 10.7 million loans in our single-family credit guarantee portfolio at both March 31, 2016 and December 31, 2015.

Management and Guarantee Fees

Average Portfolio Segment Earnings Management and Guarantee Fee Rate[1]

Average Management and Guarantee Fee Rate Charged on New Acquisitions[1]

(1) Excludes the legislated 10 basis point increase in management and guarantee fees.

Commentary

- Average portfolio Segment Earnings management and guarantee fees remained relatively unchanged during the three months ended March 31, 2016 compared to the three months ended March 31, 2015, as higher contractual management and guarantee fee rates during the three months ended March 31, 2016 were offset by lower amortization of upfront fees driven by lower loan liquidations resulting from lower refinance volume.
- The average management and guarantee fee rate charged on new acquisitions recognizes upfront delivery fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations, whereas the average portfolio Segment Earnings management and guarantee fee rate recognizes these amounts for the entire portfolio over the contractual life of the related loans (usually 30 years) adjusted for actual prepayments.

Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal methods of transferring a portion of the mortgage credit risk subsequent to loan acquisition in our Core single-family book. The following chart presents transactions that occurred during the three months ended March 31, 2016 by loss position and the party holding each loss position.

New STACR Debt Note and ACIS Transactions for the Three Months Ended March 31, 2016[1]

(In billions)

Freddie Mac

Senior

$50.9

Freddie Mac ACIS STACR Debt Notes

Reference Pool

Mezzanine

$53.7

$0.1 $0.7 $1.4

Freddie Mac ACIS STACR Debt Notes

First Loss

$0.4 $0.1 $0.1

(1) The amounts represent the UPB upon issuance of STACR debt notes and execution of ACIS transactions.

Commentary

- We continued to transfer a portion of credit risk to third-party investors, insurers, and selected sellers through credit risk transfer transactions. During the three months ended March 31, 2016, we transferred a portion of the credit risk associated with $53.8 billion in UPB of loans in our Core single-family book through STACR debt note, ACIS, and seller indemnification transactions.
- The interest and premiums we pay on our issued STACR debt note and ACIS transactions effectively reduce the management and guarantee fee income we earn on the PCs within the respective reference pools. Our expected management and guarantee fee income on the PCs within the STACR and ACIS reference pools has been effectively reduced by approximately 32%, on average, for all transactions executed through March 31, 2016. The effective reduction to our overall management and guarantee fee income could change over time as we continue our credit risk transfer activities or if there are changes in the economic or regulatory environment that affect the cost of executing these transactions.
- As of March 31, 2016, there has not been a significant number of loans in our STACR debt note reference pools that have experienced a credit event. As a result, we have only recognized minimal write-downs on our STACR debt notes and have begun to make minimal claims for reimbursement of losses under our ACIS transactions.

Credit Enhancements

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of March 31, 2016. The table includes all types of single-family credit enhancements, including primary mortgage insurance. See Note 4 for additional information about our single-family credit enhancements.

	As of March 31, 2016				
(dollars in millions)	Total Current UPB	Total Protected UPB(1)	Coverage Remaining(2)	Collateralized Coverage Remaining(3)	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions(4)
Core single-family book	$1,153,452	$478,541	$ 73,005	$ 14,484	25 %
HARP and other relief refinance book	296,000	32,921	9,009	—	— %
Legacy single-family book	256,667	34,353	10,554	—	— %
Total	$1,706,119	$545,815	$ 92,568	$ 14,484	19 %

(1) Represents the UPB covered by the credit enhancement.
(2) Represents the amounts that are still available for us to recover under the credit enhancement.
(3) Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and unguaranteed whole loan securities, as well as cash and securities pledged for our benefit. All collateralized coverage relates to credit risk transfer transactions in the Core single-family book.
(4) Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification agreements, and whole loan securities. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

Commentary

- The Core single-family book had credit protection on 41% of total current UPB as of March 31, 2016 compared to 39% as of December 31, 2015.

Mortgage Loan Credit Risk

Certain combinations of loan attributes can indicate a higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following table presents the combination of credit score and current LTV (CLTV) ratio attributes of loans in our single-family credit guarantee portfolio.

	March 31, 2016								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified
Core single-family book:									
< 620	0.2 %	2.12 %	— %	4.13 %	— %	11.61 %	0.2 %	2.46 %	2.9 %
620 to 659	1.3	0.95 %	0.2	1.34 %	—	6.42 %	1.5	1.02 %	1.2 %
≥ 660	57.1	0.14 %	8.6	0.25 %	0.1	1.99 %	65.8	0.16 %	0.2 %
Not available	0.1	1.47 %	—	3.54 %	—	7.53 %	0.1	3.00 %	3.2 %
Total	58.7 %	0.17 %	8.8 %	0.31 %	0.1 %	3.36 %	67.6 %	0.19 %	0.2 %
Relief refinance book:									
< 620	0.6 %	1.59 %	0.2 %	3.00 %	0.1 %	4.43 %	0.9 %	2.25 %	3.6 %
620 to 659	0.8	1.00 %	0.3	2.04 %	0.2	3.33 %	1.3	1.53 %	2.1 %
≥ 660	10.7	0.29 %	3.2	0.99 %	1.3	1.80 %	15.2	0.53 %	0.6 %
Not available	—	1.35 %	—	— %	—	1.85 %	—	1.12 %	1.1 %
Total	12.1 %	0.39 %	3.7 %	1.22 %	1.6 %	2.15 %	17.4 %	0.69 %	0.9 %
Legacy single-family book									
< 620	0.8 %	6.23 %	0.3 %	12.78 %	0.2 %	20.28 %	1.3 %	8.49 %	31.5 %
620 to 659	1.4	4.47 %	0.5	10.29 %	0.3	16.84 %	2.2	6.35 %	25.8 %
≥ 660	8.2	1.92 %	2.0	7.02 %	1.1	12.00 %	11.3	2.89 %	12.1 %
Not available	0.2	5.01 %	—	17.04 %	—	19.12 %	0.2	5.76 %	14.0 %
Total	10.6 %	2.63 %	2.8 %	8.31 %	1.6 %	14.18 %	15.0 %	3.86 %	15.5 %

Alt-A and Subprime Loans

While we refer to certain 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 loans may differ from company to company. For example, some financial institutions may use credit scores to delineate certain residential loans as subprime. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market may characterize single-family 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 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. In addition, we estimate that approximately $1.4 billion and $1.5 billion of security collateral underlying our other securitization products at March 31, 2016 and December 31, 2015, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Many mortgage market participants classify single-family 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 loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continued to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, part of our relief refinance initiative, or part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan 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 loan in this Form 10-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A 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 March 31, 2016, we have purchased approximately $33.3 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $0.4 billion in the first quarter of 2016.

The table below contains information on Alt-A loans in our single-family credit guarantee portfolio.

	March 31, 2016				December 31, 2015			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$38.5	76 %	23.9 %	6.01%	$40.2	77 %	23.1 %	6.32%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during the first quarter of 2016 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida, and Nevada.

Single-Family Loan Performance

Serious Delinquency Rates
Commentary

- Serious delinquency rates continued to decline across our single-family credit guarantee portfolio during the three months ended March 31, 2016 due to the continued strong performance of loans in the Core single-family book, continued loss mitigation and foreclosure activities for loans in the Legacy single-family book, as well as sales of certain non-performing loans.
- As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent loans totaling $0.8 billion in UPB during the three months ended March 31, 2016.

The sale of seriously delinquent loans during the three months ended March 31, 2016 contributed to a decline in the seriously delinquent rate of the total single-family credit guarantee portfolio and the Legacy single-family book of approximately 0.03% and approximately 0.11%, respectively, as of March 31, 2016.

- Delinquency rates declined to 1.17% and 0.36% for loans one month and two months past due, respectively, as of March 31, 2016 compared to 1.37% and 0.42%, respectively, as of December 31, 2015.

Credit Performance

The table below contains certain credit performance metrics of our single-family credit guarantee portfolio.

(dollars in millions)	Three Months Ended March 31, 2016	2015
Charge-offs, gross	$569	$2,951
Recoveries	(128)	(174)
Charge-offs, net	441	2,777
REO operations expense (income)	84	75
Total credit losses	$525	$2,852
Total credit losses (in bps)	12.2	67.7
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to net charge-offs for single-family loans[1]	2.7	2.2
Ratio of total loan loss reserves to net charge-offs for single-family loans	8.2	1.7

(1) The ratio for the three months ended March 31, 2015 excludes charge-offs of $1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015.

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

	March 31, 2016		March 31, 2015	
(dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	512,253	$85,960	539,590	$94,401
New additions	12,470	1,701	16,650	2,356
Repayments and reclassifications to held-for-sale	(10,426)	(1,945)	(9,574)	(2,779)
Foreclosure transfers and foreclosure alternatives	(2,962)	(426)	(6,055)	(1,025)
TDRs, at March 31,	511,335	85,290	540,611	92,953
Loans impaired upon purchase	8,137	604	11,882	906
Total impaired loans with specific reserve	519,472	85,894	552,493	93,859
Allowance for loan losses		(13,315)		(16,357)
Net investment, at March 31,		$72,579		$77,502

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

(in millions)	March 31, 2016	December 31, 2015
TDRs on accrual status	$82,121	$82,026
Non-accrual loans	20,299	22,460
Total TDRs and non-accrual loans	$102,420	$104,486
Loan loss reserves associated with:		
TDRs on accrual status	$11,432	$12,105
Non-accrual loans	2,596	2,677
Total	$14,028	$14,782

(in millions)	Three Months Ended March 31, 2016	2015
Foregone interest income on TDRs and non-accrual loans[1]	$697	$871

(1) Represents the amount of interest income that we would have recognized for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

Commentary

- As of March 31, 2016, 68% of the loan loss reserves for single-family mortgage loans related to interest rate concessions provided to borrowers as part of loan modifications.
- Most of our modified single-family loans, including TDRs, were current and performing at March 31, 2016.
- We expect our loan loss reserves associated with existing single-family TDRs to continue to decline over time as borrowers continue to make monthly payments under the modified terms and interest-rate concessions are amortized into earnings.
- Charge-offs were lower during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 due to:
  - Decreased REO acquisition and foreclosure alternative volumes; and
  - Our initial adoption of an FHFA advisory bulletin on January 1, 2015 that changed when we deem a loan to be uncollectible, which increased charge-offs by $1.9 billion during the three months ended March 31, 2015.
- See Note 4 for information on our single-family loan loss reserves.

Loss Mitigation Activities

Loan Workout Activity
Commentary

- Our loan workout activity has declined along with the decline in the number of delinquent loans in the single-family credit guarantee portfolio.

REO Activity

The table below presents a summary of our single-family REO activity.

	Three Months Ended March 31,			
	2016		2015	
(dollars in millions)	Number of Properties	Amount	Number of Properties	Amount
Beginning balance — REO	17,004	$1,774	25,768	$2,684
Additions	4,631	440	7,201	683
Dispositions	(6,226)	(603)	(10,231)	(983)
Ending balance — REO	15,409	1,611	22,738	2,384
Beginning balance, valuation allowance		(52)		(126)
Change in valuation allowance		8		36
Ending balance, valuation allowance		(44)		(90)
Ending balance — REO, net		$1,567		$2,294

Commentary

- Our REO inventory declined during the three months ended March 31, 2016, primarily due to REO dispositions exceeding our acquisitions. REO acquisitions continue to decline due to fewer seriously delinquent loans and a large proportion of property sales to third parties at foreclosure.

FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Single-family Guarantee segment.

	Three Months Ended March 31,		Change	
(dollars in millions)	2016	2015	$	%
Net interest income (loss)	$(118)	$(137)	$19	(14)%
Management and guarantee fee income	1,285	1,257	28	2%
Benefit (provision) for credit losses	289	(380)	669	(176)%
Net interest income and management and guarantee income after benefit (provision) for credit losses	1,456	740	716	97%
Other non-interest income (loss)	187	(183)	370	(202)%
Non-interest expense:				
Administrative expense	(295)	(300)	5	(2)%
REO operations expense	(84)	(75)	(9)	12%
Other non-interest expense	(100)	(92)	(8)	9%
Total non-interest expense	(479)	(467)	(12)	3%
Segment Earnings before income tax (expense) benefit	1,164	90	1,074	1,193%
Income tax (expense) benefit	(354)	(30)	(324)	1,080%
Segment Earnings, net of taxes	810	60	750	1,250%
Total other comprehensive income (loss), net of tax	1	(1)	2	(200)%
Total comprehensive income	$811	$59	$752	1,275%

Key Drivers:

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

- Benefit for credit losses increased due to improvements in estimated loss severity and probability of default.
- Other non-interest income increased primarily due to:

Fewer seriously delinquent single-family loans reclassified from held-for-investment to held-for-sale; and

Minimal gains on STACR debt notes carried at fair value as a result of relatively unchanged spreads between STACR yields and LIBOR during the three months ended March 31, 2016 compared to losses as a result of tightened spreads during the three months ended March 31, 2015.

MULTIFAMILY
MARKET CONDITIONS

The following graphs and related discussion present certain market indicators that can significantly affect the business and financial results of our Multifamily segment.

K Certificate Benchmark Spread

Source: J.P. Morgan

Apartment Vacancy Rates and Change in Effective Rents

Source: REIS, Inc.

Commentary

- The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) is affected by the change in K Certificate spreads during the period between our commitment to purchase a loan and execution of the K Certificate transaction.
- Macroeconomic market conditions continued to create volatility in the K Certificate benchmark spread during the three months ended March 31, 2016. During January and February of 2016, spread widening had an adverse effect on K Certificate profitability. However, the K Certificate benchmark spread tightened sharply in March 2016 amid a broader rally in the corporate bond market, ending the first quarter at 80 basis points.
- During the three months ended March 31, 2016, the rate of increase in effective rents continued to slow marginally and vacancy rates continued to increase slightly. Despite these changes, both market conditions remain strong relative to historic levels. We expect this moderation trend to continue for the remainder of the year, but do not expect it to significantly affect our financial results.

BUSINESS RESULTS

The following tables, graphs and related discussion present the business results of our Multifamily segment.

New Business Activity and Multifamily Portfolio

New Business Activity

Note: Outstanding commitments includes loan purchase commitments for which we have elected the fair value option.

Multifamily Portfolio

Commentary

- We have a goal under the 2016 Conservatorship Scorecard to maintain the dollar volume of multifamily new business activity at or below a production cap of $31 billion. For purposes of determining our performance under the goal, business activity associated with certain targeted loan types is excluded from this production cap. Reclassifications between new business activity subject to

the production cap and new business activity not subject to the production cap will occur during 2016 as updated data becomes available.

- Approximately two-thirds of our multifamily new business activity during the three months ended March 31, 2016 counted towards the 2016 Scorecard production cap, and the remaining one-third was not subject to the production cap.
- Our multifamily portfolio grew during the three months ended March 31, 2016 due to an increase in the guarantee portfolio, which was primarily attributable to our securitization of loans in K Certificate transactions.
- Our balance of multifamily held-for-sale loans was $23.6 billion at March 31, 2016. This balance is high relative to historic levels and exposes us to spread risk. However, we expect the balance to decline during the year as we continue to securitize loans into K Certificates and other securitization products.
- Our multifamily delinquency rate at March 31, 2016 was 0.04%.

Credit Risk Transfer Activity

New K Certificate Issuances

Average Management and Guarantee Fee Rate Charged on New K Certificates

Commentary

- During the three months ended March 31, 2016, we executed nine K Certificate transactions that transferred credit risk associated with $9.8 billion in UPB of loans. Our K Certificate issuance volume increased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 because of the record origination volume in the multifamily market during 2015. As the overall market grew, we increased our purchases, ending 2015 with a large portfolio of held-for-sale loans which are being securitized in 2016.
- We also transferred credit risk associated with $1.0 billion of additional loans through other securitization products, such as small balance loan securitizations.
- The average management and guarantee fee rate on newly issued K Certificates remained relatively unchanged during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Multifamily segment.

(dollars in millions)	Three Months Ended March 31, 2016	2015	Change $	%
Net interest income	$252	$242	$10	4 %
Management and guarantee fee income	108	73	35	48 %
Benefit for credit losses	5	3	2	67 %
Net interest income and management and guarantee income after benefit (provision) for credit losses	365	318	47	15 %
Gains (losses) on loans	497	353	144	41 %
Derivative losses	(787)	(199)	(588)	295 %
Other non-interest income	240	37	203	549 %
Administrative expense	(80)	(70)	(10)	14 %
Other non-interest expense	(24)	(11)	(13)	118 %
Segment Earnings before income tax expense	211	428	(217)	(51)%
Income tax expense	(64)	(144)	80	(56)%
Segment Earnings, net of taxes	147	284	(137)	(48)%
Total other comprehensive income (loss), net of tax	3	(20)	23	(115)%
Total comprehensive income	$150	$264	$(114)	(43)%

Key Drivers:

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

- Net interest income increased primarily due to higher average balances of unsecuritized held-for-sale mortgage loans.
- Management and guarantee fee income increased primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.
- Gains (losses) on loans increased due to increased interest rate-related fair value gains, partially offset by increased spread-related fair value losses. Interest rate-related fair value gains (which are offset in derivative losses) increased due to larger declines in longer-term interest rates during the three months ended March 31, 2016 compared to the three months ended March 31, 2015. Spread-related fair value losses increased due to increased volatility in K Certificate spreads during the three months ended March 31, 2016 compared to spread-related fair value gains during the three months ended March 31, 2015 when K Certificate spreads were relatively unchanged.
- Derivative losses increased due to a larger decline in longer-term interest rates. These losses are offset by fair value changes of the loans and investment securities being economically hedged, and as a result, there is no net impact on total comprehensive income for the Multifamily segment from fair value changes related to interest rate-related derivatives. The fair value changes of the economically hedged assets are included in gains (losses) on loans, other non-interest income and total other comprehensive income (loss).
- Other non-interest income increased primarily due to gains recognized on certain held-for-sale loan purchase commitments for which we elected the fair value option beginning in 2016. In addition, we recognized higher guarantee obligation amortization income due to a larger portfolio of guaranteed K Certificates.

- Total other comprehensive income (loss) remained relatively unchanged. While we recognized increased interest rate-related fair value gains due to a larger decline in longer-term interest rates (which are offset in derivatives losses), we also recognized increased spread-related fair value losses as a result of CMBS spread widening on our available-for-sale securities during the three months ended March 31, 2016 compared to spread tightening during the three months ended March 31, 2015.

INVESTMENTS

MARKET CONDITIONS

The graphs and related discussion present the par swap rate curves as of the end of each comparative period. As our derivatives and variable-rate debt are generally LIBOR-based, changes in par swap rates can significantly affect the business and financial results of our Investments segment.

Sources: ATLAS, BlackRock

Commentary

- Longer-term interest rates (e.g., 2-year and 10-year rates) declined as of March 31, 2016 compared to December 31, 2015, and also declined as of March 31, 2015 compared to December 31, 2014. In each case, the decline reduced the fair value of our pay-fixed interest rate swaps and improved the fair values of our receive-fixed interest rate swaps, certain of our option contracts, and the vast majority of our investments in securities.
- The decline in longer-term interest rates as of March 31, 2016 was larger than the decline in longer-term interest rates as of March 31, 2015, resulting in greater impacts to our financial results during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

BUSINESS RESULTS

The following tables, graphs and related discussion present the business results of our Investments segment.

Investing Activity

The following graphs present the Investments segment's total investments portfolio and the composition of its mortgage investments portfolio by liquidity category.

Investments Portfolio

Mortgage Investments Portfolio

Commentary

- We continue to reduce the size of our mortgage investments portfolio in order to comply with the mortgage-related investments portfolio limits. The balance of our mortgage investments portfolio declined 1.8% from December 31, 2015 to March 31, 2016.
- The balance of our non-mortgage-related assets portfolio declined 22.6% from December 31, 2015 to March 31, 2016, due to reduced near-term cash needs.
- The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 38.8% at December 31, 2015 to 37.2% at March 31, 2016, primarily due to repayments and securitizations of our less liquid assets. We actively managed the size of our less liquid assets by selling $0.8 billion of non-agency mortgage-related securities and enhancing the liquidity of $3.5 billion of single-family reperforming loans and performing modified loans through securitization. We

retained the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage investments portfolio.

- The overall liquidity of our mortgage investments portfolio continues to improve as our new asset acquisitions have almost entirely consisted of purchases of more liquid assets, including agency mortgage-related securities and loans awaiting securitization into PCs.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balance Commentary

- The average balance of the mortgage-related securities that we manage declined 16.0% during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to repayments and the sale of certain non-agency mortgage-related securities.
- The average balance of the single-family unsecuritized mortgage loans that we manage declined 10.0% during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to the repayment and securitization of certain reperforming loans and performing modified loans, partially offset by an increase in our purchase of loans for our securitization pipeline.
- The average balance of the non-mortgage-related assets that we manage will fluctuate period to period based on our liquidity needs, investment strategy, and investment returns. This portfolio reflects our investments for operating purposes as well as the restricted assets that we hold and invest on behalf of consolidated trusts and cash that has been pledged to us under various agreements.
- Net interest yield declined 35 basis points during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to an increase in our funding costs, coupled with a continued reduction in the balance of higher yielding mortgage-related assets in our mortgage investments portfolio due to repayments.

Funding Activity

We fund our business activities primarily through the issuance of unsecured other debt. The table below summarizes this activity.

	Three Months Ended March 31,	
(Par value in millions)	2016	2015
Discount notes and Reference Bills:		
Beginning balance	$104,088	$134,670
Issuances	105,653	61,610
Maturities	(134,082)	(79,891)
Ending balance	75,659	116,389
Callable debt:		
Beginning balance	107,675	107,070
Issuances	28,930	25,085
Repurchases	—	—
Calls	(27,691)	(10,905)
Maturities	(250)	(1,557)
Ending balance	108,664	119,693
Non-callable debt:		
Beginning balance	194,372	206,393
Issuances	8,438	14,088
Repurchases	—	—
Maturities	(8,891)	(13,369)
Ending balance	193,919	207,112
Total other debt	$378,242	$443,194

Commentary

- The outstanding balance of our other debt declined during the three months ended March 31, 2016, compared to the same period in 2015, as we required less debt to fund our business operations, as the balance of our mortgage-related investments portfolio continues to decline.
- During the three months ended March 31, 2016, we continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. This resulted in an increase in both issuances and pay-offs of our short-term other debt compared to the same period during 2015.
- Issuances and calls of our longer-term callable debt increased during the three months ended March 31, 2016 compared to the same period in 2015, as we refinanced more of our outstanding callable debt due to the low interest rate environment and favorable spreads relative to our non-callable debt.

Debt Composition

The following graphs present our other debt by contractual maturity date and earliest redemption date. The earliest redemption date refers to the earliest call date for callable debt and the contractual maturity date for all other debt.
Contractual Maturity Date as of March 31, 2016

Earliest Redemption Date as of March 31, 2016

Commentary

- As our long-term debt spreads remained high during the three months ended March 31, 2016, we continue to rely on short-term and medium-term debt issuances for our overall funding needs. Our effective short-term debt percentage, which represents the percentage of our total other debt that is expected to mature within one year, has remained relatively flat at 41.7% as of March 31, 2016 as compared to 41.3% as of December 31, 2015.
- Our short-term debt issuances provide us with overall lower funding costs relative to longer-term debt and greater flexibility as we reduce our mortgage-related investments portfolio. We saw improvement in our short-term debt spreads compared to the fourth quarter of 2015, primarily due to declining external competition for new short-term debt issuances.

- As of March 31, 2016, $91 billion of the outstanding $109 billion of callable debt may be called within one year.

FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Investments segment.

	Three Months Ended March 31,		Change	
(dollars in millions)	2016	2015	$	%
Net interest income	$748	$1,155	$(407)	(35)%
Non-interest income:				
Net impairment of available-for-sale securities recognized in earnings	81	118	(37)	(31)%
Derivative losses	(2,995)	(1,428)	(1,567)	110 %
Gains on trading securities	169	45	124	276 %
Other non-interest income	189	461	(272)	(59)%
Total non-interest income	(2,556)	(804)	(1,752)	218 %
Non-interest expense:				
Administrative expense	(73)	(81)	8	(10)%
Other non-interest (expense) income	(2)	—	(2)	— %
Total non-interest expense	(75)	(81)	6	(7)%
Segment Earnings before income tax expense	(1,883)	270	(2,153)	(797)%
Income tax expense	572	(90)	662	(736)%
Segment Earnings, net of taxes	(1,311)	180	(1,491)	(828)%
Total other comprehensive income (loss), net of tax	150	236	(86)	(36)%
Total comprehensive income	$(1,161)	$416	$(1,577)	(379)%

Key Drivers:

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

- Net interest income decreased due to the continued reduction in the balance of our mortgage investments portfolio.
- Derivative losses increased due to a larger decline in longer-term interest rates. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.
- Gains on trading securities increased due to a larger decline in longer-term interest rates, partially offset by spread widening for our agency mortgage-related securities classified as trading.
- Other non-interest income decreased due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decrease in sales was attributable to increased market volatility and weaker investor demand for this product type.
- Other comprehensive income decreased due to spread widening for our non-agency mortgage-related securities and less spread tightening for our agency mortgage-related securities classified as available-for-sale, partially offset by gains resulting from a larger decline in longer-term interest rates. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

RISK MANAGEMENT

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, interest-rate and other market risks, liquidity risk, and operational risk. For more discussion of these and other risks facing our business and our risk management framework, see "MD&A - Risk Management" in our 2015 Annual Report and "Risk Factors" and "Liquidity and Capital Resources" in this report and in our 2015 Annual Report. See below for updates since our 2015 Annual Report.

CREDIT RISK

INSTITUTIONAL CREDIT RISK

Mortgage Insurers

On December 31, 2015, Freddie Mac's eligibility requirements for mortgage insurers, implemented at the direction of FHFA in conjunction with Fannie Mae, became effective for all Freddie Mac-approved mortgage insurers. These revised eligibility requirements include financial requirements determined using a risk-based framework, and were designed to promote the ability of mortgage insurers to fulfill their intended role of providing consistent liquidity throughout the mortgage cycle. As of March 1, 2016, our mortgage insurers had submitted 2015 audited financial information and certified their compliance with these new requirements as of their effective date. We confirmed our mortgage insurers' capital adequacy as part of our eligibility compliance reviews and will continue to assess this each quarter. While PMI Mortgage Insurance Co., Republic Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are subject to these new standards, we have not evaluated their compliance with the capital requirements, as they are in rehabilitation or under regulatory supervision and no longer issue new insurance.

On March 30, 2016, United Guaranty filed with the Securities and Exchange Commission an S-1 registration statement for the planned initial public offering of up to 19.9% of the equity in United Guaranty, to be offered by American International Group, Inc. Because United Guaranty is an approved mortgage insurer, we will evaluate the impact to United Guaranty's financial strength as part of approving the planned offering.

For more information about counterparty risk associated with mortgage insurers, see Note 12.

INTEREST-RATE RISK AND OTHER MARKET RISKS

Our business segments have embedded exposure to interest-rate risk and other market risks. Interest-rate risk is consolidated and managed by the Investments segment, while spread risk is owned and managed by each individual business segment. Interest-rate risk and other market risks can adversely affect future cash flows, or economic value, as well as earnings and net worth.

The majority of our interest-rate risk comes from our investments in mortgage-related assets (securities and loans) and the debt we issue to fund them. Our primary goal in managing interest-rate risk is to reduce the amount of change in the value of our future cash flows due to future changes in interest rates. We use models to analyze possible future interest-rate scenarios, along with the cash flows of our assets and liabilities over those scenarios.

Our primary interest-rate risk measures are duration gap and Portfolio Market Value Sensitivity, or PMVS. PMVS measures are estimates of the amount of average potential pre-tax loss in the market value of our net assets due to parallel (PMVS-L) and non-parallel (PMVS-YC) changes in LIBOR. Our duration gap and PMVS 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.

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 months ended March 31, 2016 and March 31, 2015. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. 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.

	PMVS-YC	PMVS-L	
(in millions)	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve:			
March 31, 2016	$ 10	$—	$—
December 31, 2015	$ 12	$50	$186

	Three Months Ended March 31,					
	2016			2015		
(duration gap in months, dollars in millions)	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps
Average	0.2	$ 8	$ 29	0.1	$ 28	$ 123
Minimum	(0.2)	$ —	$ —	(0.3)	$ 4	$ 61
Maximum	0.7	$ 31	$ 92	0.8	$ 47	$ 250
Standard deviation	0.2	$ 6	$ 26	0.2	$ 11	$ 38

The information presented in the table above and the two tables below does not fully reflect the potential effect of negative index values across all of our floating rate assets and liabilities. See “Risk Factors - Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes” for additional information. Because we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, incorporating these potential effects into the company’s process for estimating interest-rate risk exposure could result in significant percentage changes in the disclosed duration gap and PMVS levels. However, we do not

believe any such percentage change would represent an exposure to interest-rate risk that would be material to the company's financial condition or results of operations. We are evaluating various steps we could take to mitigate this risk.

Derivatives enable us to reduce our interest-rate risk exposure. The table below shows that the PMVS-L risk levels, assuming a 50 basis point shift in the LIBOR yield curve for the periods presented, would have been higher if we had not used derivatives.

	PMVS-L (50 bps)		
(in millions)	Before Derivatives	After Derivatives	Effect of Derivatives
March 31, 2016	$3,040	$ —	$ (3,040)
December 31, 2015	$3,373	$ 50	$ (3,323)

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, the accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at March 31, 2016, we generally recognize fair value losses in earnings when interest rates decline. The table below presents the estimated adverse net effect on pre-tax earnings of certain immediate shifts in interest rates. These estimates are essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value that we would expect to experience as a result of the shifts in interest rates. The methodology used to calculate these figures is consistent with the methodology used to calculate our PMVS-YC and PMVS-L metrics above.

	GAAP FV-YC	GAAP FV-L	
(in millions)	25 bps	50 bps	100 bps
March 31, 2016	$ 459	$1,484	$3,114
December 31, 2015	$ 635	$1,630	$3,573

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

LIQUIDITY AND CAPITAL RESOURCES

OTHER DEBT ACTIVITIES

Debt securities that we issue are classified either as debt securities of consolidated trusts held by third parties or other debt. We issue other debt, as either short-term or long-term debt, to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments.

The table below summarizes the par value of other debt securities we issued or paid off during the three months ended March 31, 2016 and March 31, 2015, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including managing our funding composition and supporting the liquidity of our debt securities.

	Three Months Ended March 31,	
(dollars in millions)	2016	2015
Beginning balance	$418,021	$454,029
Issued during the period		
Short-term:		
Amount	$105,653	$61,610
Weighted-average effective interest rate	0.32 %	0.10 %
Long-term:		
Amount	$38,840	$40,913
Weighted-average effective interest rate	1.42 %	1.20 %
Total issued:		
Amount	$144,493	$102,523
Weighted-average effective interest rate	0.62 %	0.54 %
Paid off during the period:		
Short-term:		
Amount	$(134,082)	$(79,891)
Weighted-average effective interest rate	0.23 %	0.09 %
Long-term:		
Amount	$(37,110)	$(25,924)
Weighted-average effective interest rate	1.88 %	2.09 %
Total paid off:		
Amount	$(171,192)	$(105,815)
Weighted-average effective interest rate	0.59 %	0.58 %
Ending balance	$391,322	$450,737

Issuances and pay-offs of short-term debt increased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 as we continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. We began increasing our utilization of overnight discount notes in the second quarter of 2015. We continue to rely on short-term and medium-term other debt for our overall funding needs. Other debt outstanding declined as we continued to reduce our indebtedness along with the decline in our mortgage-related investments portfolio.

DEBT SECURITIES OF CONSOLIDATED TRUSTS

The table below shows the issuance and extinguishment activity for the debt securities of our consolidated trusts.

	Three Months Ended March 31,	
(in millions)	2016	2015
Beginning balance	$1,513,089	$1,440,325
New issuances	70,956	78,847
Newly-issued debt securities retained at issuance	(19,349)	(20,614)
Net new issuances to third parties	51,607	58,233
Additional issuances of securities	28,264	23,449
Total issuances	79,871	81,682
Extinguishments, net	(68,736)	(73,696)
Ending balance	$1,524,224	$1,448,311

LIQUIDITY AND CONTINGENCY OPERATING PORTFOLIO

Excluding amounts related to our consolidated VIEs and collateral held by us from OTC derivative counterparties, we held $42.1 billion and $70.0 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at March 31, 2016 and December 31, 2015, 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 March 31, 2016, our non-mortgage-related securities consisted of U.S. Treasury securities that we could sell 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.

CASH FLOWS

We evaluate our cash flow performance by comparing the net cash flows from operating and investing activities to the net cash flows required to finance those activities. The following graphs present the results of these activities for the three months ended March 31, 2016 and March 31, 2015.

Operating Cash Flows Investing Cash Flows Financing Cash Flows
2015 2016 2015 2016 2015 2016

Commentary

Cash used in operating activities increased $0.6 billion primarily due to the following:

- Increase in net purchases of mortgage loans acquired as held-for-sale, primarily due to an increase in the purchase of multifamily loans; and
- Decrease in net interest income.

Cash provided by investing activities increased $7.4 billion primarily due to the following:

- Increase in net proceeds received from purchases and sales of trading securities, as we purchased fewer non-mortgage-related securities; and
- Decrease in securities purchased under agreements to resell.

Cash used in financing activities increased $5.7 billion primarily due to the following:

- Increase in net funds used to repay other debt, as the amount of other debt required to fund our mortgage-related investments portfolio has declined. This increase was partially offset by an increase in proceeds received from issuance of debt securities of consolidated trusts held by third parties as we issued more PCs for cash.

CAPITAL RESOURCES

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and our ability to fund those requirements. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. The amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws.

At March 31, 2016, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at March 31, 2016 and the 2016 Capital Reserve Amount of $1.2 billion, we will not have a dividend obligation to Treasury in June 2016. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. As a result of the net worth sweep dividend on the senior preferred stock, our future profits will effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury.

Management's Discussion and Analysis Liquidity and Capital Resources

The table below presents activity related to our net worth during the last five quarters.

	Three Months Ended				
(in millions)	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Beginning balance	$2,940	$ 1,299	$5,713	$2,546	$2,651
Comprehensive (loss) income	(200)	1,641	(501)	3,913	746
Capital draw from Treasury	—	—	—	—	—
Senior preferred stock dividends declared	(1,740)	—	(3,913)	(746)	(851)
Total equity / net worth	$1,000	$ 2,940	$1,299	$5,713	$2,546
Aggregate draws under Purchase Agreement	$71,336	$ 71,336	$71,336	$71,336	$71,336
Aggregate cash dividends paid to Treasury	$98,205	$ 96,465	$96,465	$92,552	$91,806

CONSERVATORSHIP AND RELATED MATTERS

REDUCING OUR MORTGAGE-RELATED INVESTMENTS PORTFOLIO OVER TIME

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

	March 31, 2016				December 31, 2015			
(dollars in millions)	Liquid	Securitiz-ation Pipeline	Less Liquid	Total	Liquid	Securitiz-ation Pipeline	Less Liquid	Total
Investments segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$—	$10,573	$—	$10,573	$—	$10,041	$—	$10,041
Reperforming loans and performing modified loans	—	—	63,540	63,540	—	—	67,036	67,036
Total single-family unsecuritized loans	—	10,573	63,540	74,113	—	10,041	67,036	77,077
Freddie Mac mortgage-related securities	137,316	—	5,342	142,658	135,869	—	6,076	141,945
Non-agency mortgage-related securities	—	—	25,959	25,959	—	—	27,754	27,754
Non-Freddie Mac agency mortgage-related securities	12,434	—	—	12,434	12,958	—	—	12,958
Total Investment segment - Mortgage investments portfolio	149,750	10,573	94,841	255,164	148,827	10,041	100,866	259,734
Single-family Guarantee segment - Single-family	—	—	17,757	17,757	—	—	19,501	19,501

unsecuritized seriously delinquent loans								
Multifamily segment - unsecuritized loans and mortgage-related securities	6,667	23,545	36,726	66,938	7,304	19,563	40,809	67,676
Total mortgage-related investments portfolio	$156,417	$34,118	$149,324	$339,859	$156,131	$29,604	$161,176	$346,911
Percentage of total mortgage-related investments portfolio	46 %	10 %	44 %	100 %	45 %	9 %	46 %	100 %
Mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015				$339,304				$399,181
90% of mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015[1]				$305,374				$359,263

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

The decline in our mortgage-related investments portfolio during the three months ended March 31, 2016 was primarily due to repayments, partially offset by net purchases of multifamily loans for our securitization pipeline and agency mortgage-related securities. We also actively managed the size of our less liquid assets through the following:

- Sales of $1.6 billion of less liquid assets, including $0.8 billion in UPB of non-agency mortgage-related securities and $0.8 billion in UPB of seriously delinquent unsecuritized single-family loans; and
- Securitizations of $3.5 billion of single-family reperforming loans and performing modified loans, thereby enhancing their liquidity. We retained the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage-related investments portfolio.

REGULATION AND SUPERVISION

In addition to our oversight by FHFA as our Conservator, we are subject to regulation and oversight by FHFA under our Charter and the GSE Act and to certain regulation by other government agencies. Furthermore, regulatory activities by other government agencies can affect us indirectly, even if we are not directly subject to such agencies' regulation or oversight. For example, regulations that modify requirements applicable to the purchase or servicing of mortgages can affect us.

AFFORDABLE HOUSING ALLOCATIONS

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and allocate or transfer such amount to certain housing funds. During the three months ended March 31, 2016, we completed $85.7 billion of new business purchases subject to these allocations and accrued $36 million of related expense. We expect to pay this amount (and any additional amounts accrued based on our new business purchases during the remainder of 2016) in February 2017. We are prohibited from passing through the costs of the affordable housing allocations to the originators of the loans that we purchase.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

LEGISLATION RELATED TO FREDDIE MAC AND ITS FUTURE STATUS

Our future structure and role will be determined by the Administration and Congress, and it is possible, and perhaps likely, that there will be significant changes beyond the near-term.

On April 11, 2016, the “Risk Management and Homeowner Stability Act of 2016” was introduced in the House of Representatives. The bill is designed to prohibit the use of Freddie Mac and Fannie Mae guarantee fees as offsets against other expenditures in the federal budget.

On April 15, 2016, the “Housing Finance Restructuring Act of 2016” was introduced in the House of Representatives. Under the bill, the Senior Preferred Stock Purchase Agreements between Treasury and each of Freddie Mac and Fannie Mae (the “Enterprises”) would be terminated, except for the provisions that provide for Treasury's funding commitment to each Enterprise, and the Enterprises would be deemed to have fully repaid Treasury for its financial support. The bill provides for Treasury to exercise the warrants to purchase common stock of each Enterprise. The bill also provides for the Enterprises to build and maintain capital, and for an Enterprise's conservatorship to be terminated once it attains a set level of capital.

It is likely that additional bills related to Freddie Mac, Fannie Mae, and the future of the mortgage finance system will be introduced in and considered by Congress. We cannot predict whether any of such bills will be enacted.

AFFORDABLE HOUSING GOALS FOR 2015

In March 2016, we reported to FHFA that we achieved three of the five single-family affordable housing benchmarks and all three multifamily affordable housing goals for 2015. We may achieve a single-family housing goal by meeting or exceeding either:

- the FHFA benchmark for that goal; or
- the actual share of the market that meets the criteria for that goal.

FHFA will ultimately make the determination as to whether we achieved compliance with the housing goals for 2015. On March 31, 2016, FHFA approved Freddie Mac's Affordable Housing Plan for 2016 - 2017, which FHFA required to address our failure to meet certain housing goals in the past.

PRINCIPAL REDUCTION MODIFICATION INITIATIVE

On April 14, 2016, FHFA announced that Freddie Mac and Fannie Mae will offer principal reduction to certain seriously delinquent, underwater borrowers. The new initiative is a one-time offering for borrowers who meet specific eligibility criteria, including that they:

- Are owner-occupants;
- Are at least 90 days delinquent as of March 1, 2016;
- Have a mortgage with an outstanding UPB of $250,000 or less; and
- Have a mark-to-market loan-to-value ratio of more than 115% after capitalization.

The ultimate economic effect of the Principal Reduction Modification Initiative will depend on the rate at which eligible borrowers take advantage of the initiative. The initiative could be net present value positive compared to the current streamlined modification program if the participation rates are higher than expected. We believe that approximately 11,000 borrowers on loans owned by Freddie Mac will be eligible for this new initiative.

PROPOSED RULE ON INCENTIVE-BASED COMPENSATION ARRANGEMENTS

FHFA and other financial regulators have proposed an interagency rule on incentive-based compensation arrangements that implements Section 956 of the Dodd-Frank Act. The proposed rule is intended to prohibit incentive-based compensation arrangements that could encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. Among other items, the proposed rule would require large financial institutions, including Freddie Mac, to defer payment of certain incentive-based compensation awarded to senior executive officers and to significant risk-takers. FHFA's version of the proposed rule specifies that, for institutions in conservatorship, FHFA shall determine which requirements of the rule will apply. We cannot predict whether or when a final rule will be adopted.

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. For a description of our off-balance sheet arrangements, see "MD&A - Off-Balance Sheet Arrangements" in our 2015 Annual Report. See Note 3 for more information on our off-balance sheet securitization activities and other guarantees.

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees. Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $136.3 billion and $127.3 billion at March 31, 2016 and December 31, 2015, respectively.

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 the Single-family Guarantee, Multifamily, and Investments segments of our business, our 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 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,” and similar phrases. These statements ar 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” sections of this Form 10-Q and our 2015 Annual Report, and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA’s Conservatorship Scorecards and other objectives for us;
- 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 book 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 cyberattacks);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan 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 limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate 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 and our 2015 Annual Report, including in the “MD&A” section.

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.

FINANCIAL STATEMENTS

Financial Statements Condensed Consolidated Statements of Comprehensive Income (Loss)

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended March 31,	
(in millions, except share-related amounts)	2016	2015
Interest income		
Mortgage loans	$15,818	$15,454
Investments in securities	969	1,335
Other	57	11
Total interest income	16,844	16,800
Interest expense	(13,388)	(13,088)
Expense related to derivatives	(51)	(65)
Net interest income	3,405	3,647
Benefit (provision) for credit losses	467	499
Net interest income after benefit (provision) for credit losses	3,872	4,146
Non-interest income (loss)		
Gains (losses) on extinguishment of debt	(55)	(79)
Derivative gains (losses)	(4,561)	(2,403)
Impairment of available-for-sale securities:		
Total other-than-temporary impairment of available-for-sale securities	(52)	(89)
Portion of other-than-temporary impairment recognized in AOCI	(5)	(4)
Net impairment of available-for-sale securities recognized in earnings	(57)	(93)
Other gains (losses) on investment securities recognized in earnings	303	417
Other income (loss)	947	11
Non-interest income (loss)	(3,423)	(2,147)
Non-interest expense		
Salaries and employee benefits	(239)	(232)
Professional services	(101)	(113)
Occupancy expense	(13)	(12)
Other administrative expense	(95)	(94)
Total administrative expense	(448)	(451)
Real estate owned operations (expense) income	(84)	(75)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(272)	(222)
Other (expense) income	(153)	(463)
Non-interest expense	(957)	(1,211)
(Loss) income before income tax benefit (expense)	(508)	788
Income tax benefit (expense)	154	(264)
Net (loss) income	(354)	524
Other comprehensive income (loss), net of taxes and reclassification adjustments:		
Changes in unrealized gains (losses) related to available-for-sale securities	119	157
Changes in unrealized gains (losses) related to cash flow hedge relationships	34	59
Changes in defined benefit plans	1	6
Total other comprehensive income (loss), net of taxes and reclassification adjustments	154	222
Comprehensive (loss) income	$(200)	$746
Net (loss) income	$(354)	$524
Undistributed net worth sweep and senior preferred stock dividends	—	(746)
Net loss attributable to common stockholders	$(354)	$(222)

Net loss per common share — basic and diluted	$(0.11)	$(0.07)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,236

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

Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share-related amounts)	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 12)	$6,158	$5,595
Restricted cash and cash equivalents (Notes 3, 12)	16,671	14,533
Securities purchased under agreements to resell (Notes 3, 8)	40,098	63,644
Investments in securities, at fair value (Note 5)	107,595	114,215
Mortgage loans held-for-sale (Notes 3, 4) (includes $22,415 and $17,660 at fair value)	27,085	24,992
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $14,521 and $15,331)	1,735,548	1,729,201
Accrued interest receivable (Note 3)	6,091	6,074
Derivative assets, net (Notes 7, 8)	814	395
Real estate owned, net (Note 3)	1,571	1,725
Deferred tax assets, net (Note 10)	18,123	18,205
Other assets (Notes 3, 16)	9,346	7,313
Total assets	$1,969,100	$1,985,892
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$6,047	$6,183
Debt, net (Notes 3, 6) (includes $6,915 and $7,184 at fair value)	1,955,618	1,970,269
Derivative liabilities, net (Notes 7, 8)	1,632	1,254
Other liabilities (Notes 3, 16)	4,803	5,246
Total liabilities	1,968,100	1,982,952
Commitments and contingencies (Notes 3, 7, and 14)		
Equity (Note 9)		
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 650,046,828 shares and 650,045,962 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(82,867)	(80,773)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $578 and $778, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	1,859	1,740
Cash flow hedge relationships	(587)	(621)
Defined benefit plans	35	34
Total AOCI, net of taxes	1,307	1,153
Treasury stock, at cost, 75,817,058 shares and 75,817,924 shares	(3,885)	(3,885)
Total equity (See Note 9 for information on our dividend obligation to Treasury)	1,000	2,940
Total liabilities and equity	$1,969,100	$1,985,892

The table below presents the carrying value and classification of the assets and liabilities of consolidated VIEs on our consolidated balance sheets.

	March 31,	December 31,

(in millions)	2016	2015
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-sale	$277	$1,403
Mortgage loans held-for-investment	1,635,242	1,625,184
All other assets	42,819	37,305
Total assets of consolidated VIEs	$1,678,338	$1,663,892
Liabilities: (Note 3)		
Debt, net	$1,568,183	$1,556,121
All other liabilities	4,761	4,769
Total liabilities of consolidated VIEs	$1,572,944	$1,560,890

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

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
(in millions)	2016	2015
Net cash used in operating activities	$(4,086)	$(3,507)
Cash flows from investing activities		
Purchases of trading securities	(8,104)	(13,898)
Proceeds from sales of trading securities	3,234	2,863
Proceeds from maturities of trading securities	7,692	4,414
Purchases of available-for-sale securities	(3,009)	(2,161)
Proceeds from sales of available-for-sale securities	2,404	4,134
Proceeds from maturities of available-for-sale securities	4,808	4,893
Purchases of held-for-investment mortgage loans	(28,577)	(27,353)
Proceeds from sales of mortgage loans held-for-investment	832	406
Repayments of mortgage loans held-for-investment	64,343	74,167
(Increase) decrease in restricted cash	(2,138)	(154)
Net proceeds from dispositions of real estate owned and other recoveries	665	1,121
Net (increase) decrease in securities purchased under agreements to resell	23,546	4,737
Derivative premiums and terminations and swap collateral, net	(4,094)	(1,481)
Changes in other assets	(3,652)	(1,076)
Net cash provided by investing activities	57,950	50,612
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	40,722	30,122
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(65,494)	(73,600)
Proceeds from issuance of other debt	145,003	103,119
Repayments of other debt	(171,791)	(106,416)
Payment of cash dividends on senior preferred stock	(1,740)	(851)
Changes in other liabilities	(1)	—
Net cash used in financing activities	(53,301)	(47,626)
Net (decrease) increase in cash and cash equivalents	563	(521)
Cash and cash equivalents at beginning of year	5,595	10,928
Cash and cash equivalents at end of period	$6,158	$10,407
Supplemental cash flow information		
Cash paid for:		
Debt interest	$15,438	$15,304
Income taxes	573	458
Non-cash investing and financing activities (Note 4)		

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

NOTES TO CONDENSED 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, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2 in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, or 2015 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "GLOSSARY" of our 2015 Annual Report. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2015 Annual Report.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP 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 our Board of Directors and management. 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. We evaluate the materiality of identified errors in the financial statements using both an income statement, or "rollover," and a balance sheet, or "iron curtain," approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

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, expenses, 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, and valuing financial instruments and other assets and liabilities. Actual results could be different from these estimates.

RECENTLY ISSUED ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on 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	The adoption of this amendment did not have a material effect 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	Previously reported amounts have been conformed to the current presentation (see Notes 6 and 16). The effect of adoption as of January 1, 2016 and December 31, 2015 was a reduction to Other Assets and Debt, net of $158 million. There were no effects on earnings resulting from this change.

Recently Issued Accounting Guidance, Not Yet Adopted Within Our Consolidated Financial Statements

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2016-06, Derivatives and Hedging (Topic 815)	The amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendment is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence.	January 1, 2017	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-02, Leases (Topic 842)	The amendment addresses the accounting for lease arrangements.	January 1, 2019	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.

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 significantly affect 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 and FHFA regulation, the UPB of our mortgage-related investments portfolio cannot exceed $339.3 billion at December 31, 2016 and was $339.9 billion at March 31, 2016. Our 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). Our mortgage-related investments portfolio cap is reduced by 15% annually until it reaches $250 billion. This amount 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.

GOVERNMENT SUPPORT FOR OUR BUSINESS

We receive substantial support from Treasury and are dependent upon its continued support in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement, is critical to:

- Keeping us solvent;
- Allowing us to focus on our primary business objectives under conservatorship; and
- Avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

At December 31, 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 March 31, 2016. Since conservatorship began through

March 31, 2016, we have paid cash dividends of $98.2 billion to Treasury at the direction of the Conservator. See Note 6 and Note 9 for more information on the conservatorship and the Purchase Agreement.

RELATED PARTIES AS A RESULT OF CONSERVATORSHIP

We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. Common Securitization Solutions, LLC (CSS), was formed in 2013 as a limited liability company equally-owned by Freddie Mac and Fannie Mae. Therefore, CSS is also deemed a related party. During the three months ended March 31, 2016, we contributed $30 million of capital to CSS.

NOTE 3: SECURITIZATION AND GUARANTEE ACTIVITIES

Our primary business activities in our Single-family Guarantee and Multifamily segments involve the securitization of loans or other mortgage-related assets using trusts that are VIEs. These trusts issue beneficial interests in the loans or other mortgage-related assets that they own. We guarantee the principal and interest payments on some or all of the issued beneficial interests in substantially all of our securitization transactions. We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE.

VIEs FOR WHICH WE ARE THE PRIMARY BENEFICIARY

The table below represents the carrying value and classification of the assets and liabilities of consolidated VIEs on our consolidated balance sheets.

(in millions)	March 31, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	$16,316	$14,529
Securities purchased under agreements to resell	17,350	14,840
Mortgage loans held-for-sale	277	1,403
Mortgage loans held-for-investment	1,635,242	1,625,184
Accrued interest receivable	5,373	5,305
Real estate owned, net	37	40
Other assets	3,743	2,591
Total assets of consolidated VIEs	$1,678,338	$1,663,892
Liabilities:		
Accrued interest payable	$4,760	$4,763
Debt, net	1,568,183	1,556,121
Other liabilities	1	6
Total liabilities of consolidated VIEs	$1,572,944	$1,560,890

VIEs FOR WHICH WE ARE NOT THE PRIMARY BENEFICIARY

Our involvement with VIEs for which we are not the primary beneficiary takes one or both of two forms - purchasing an investment in these entities or providing a guarantee to these entities. The following table presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in unconsolidated VIEs with which we were involved in the design and creation and have a significant continuing involvement, as well as our maximum exposure to loss.

(in millions)	March 31, 2016	December 31, 2015
	Freddie Mac Securities	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Investments in securities	$49,046	$49,040
Accrued interest receivable	211	200
Other assets	1,371	1,232
Liabilities:		
Other liabilities	(1,283)	(1,230)
Maximum Exposure to Loss	$122,474	$114,193
Total Assets of Non-Consolidated VIEs	$144,497	$134,900

We also obtain interests in various other VIEs created by third parties through the normal course of business, such as through our investments in non-Freddie Mac mortgage-related securities, purchases of multifamily loans, guarantees of multifamily housing revenue bonds, as a derivative counterparty, or through other activities.

FINANCIAL GUARANTEES

The table below shows our maximum potential exposure, recognized liability, and maximum remaining term of our recognized financial guarantees to unconsolidated VIEs and other third parties. This table does not include our unrecognized financial guarantees, such as guarantees to consolidated VIEs or to resecuritization trusts that do not expose us to incremental credit risk.

(dollars in millions, terms in years)	March 31, 2016			December 31, 2015		
	Maximum Exposure	Recognized Liability[1]	Maximum Remaining Term	Maximum Exposure	Recognized Liability[1]	Maximum Remaining Term
K Certificates and other securitization products	$122,474	$ 1,195	39	$114,193	$ 1,136	40
Other mortgage-related guarantees	13,784	616	35	13,067	596	38
Derivative instruments	17,729	178	29	17,894	151	30

(1) This amount excludes our reserve for guarantee losses, which totaled $74 million and $76 million as of March 31, 2016 and December 31, 2015, respectively, and is included within other liabilities on our consolidated balance sheets.

CREDIT ENHANCEMENTS

For many of the loans underlying our single-family PCs, other securitization products, and other mortgage-related guarantees, we obtained credit enhancements from third parties covering a portion of our credit risk exposure. See Note 4 for information about credit enhancements on loans.

In connection with the securitization activities of the Multifamily segment, we have various forms of credit protection. 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 vast majority of expected credit losses to private investors who purchase the subordinate tranches, as shown in the table below.

(in millions)	UPB at		Maximum Coverage at	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
K Certificates	$109,109	$101,473	$19,696	$ 18,453
Other securitization products	7,835	7,026	1,632	1,477
Total	$116,944	$108,499	$21,328	$ 19,930

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

The table below provides details of the loans on our consolidated balance sheets.

	March 31, 2016			December 31, 2015		
(in millions)	Held by Freddie Mac	Held by consolidated trusts	Total	Held by Freddie Mac	Held by consolidated trusts	Total
Held-for sale:						
Single-family	$4,343	$381	$4,724	$6,045	$1,702	$7,747
Multifamily	23,564	—	23,564	19,582	—	19,582
Total UPB	27,907	381	28,288	25,627	1,702	27,329
Cost basis and fair value adjustments, net	(1,099)	(104)	(1,203)	(2,038)	(299)	(2,337)
Total held-for-sale loans	26,808	277	27,085	23,589	1,403	24,992
Held-for-investment:						
Single-family	87,527	1,607,282	1,694,809	90,532	1,597,590	1,688,122
Multifamily	27,818	1,690	29,508	29,505	1,711	31,216
Total UPB	115,345	1,608,972	1,724,317	120,037	1,599,301	1,719,338
Cost basis adjustments	(3,338)	29,090	25,752	(3,465)	28,659	25,194
Allowance for loan losses	(11,701)	(2,820)	(14,521)	(12,555)	(2,776)	(15,331)
Total held-for-investment loans	100,306	1,635,242	1,735,548	104,017	1,625,184	1,729,201
Total loans, net	$127,114	$1,635,519	$1,762,633	$127,606	$1,626,587	$1,754,193

During the three months ended March 31, 2016 and March 31, 2015, we purchased $68.2 billion and $79.2 billion, respectively, in UPB of single-family loans and $0.8 billion in UPB of multifamily loans during both periods that were classified as held-for-investment.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates. During the three months ended March 31, 2016 and March 31, 2015, we sold $10.8 billion and $5.1 billion, respectively, of held-for-sale multifamily loans. See Note 3 for more information on our issuances of K Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of $0.8 billion and $0.3 billion in UPB of seriously delinquent single-family loans during the three months ended March 31, 2016 and March 31, 2015, respectively.

We reclassified $0.4 billion and $3.6 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale during the three months ended March 31, 2016 and March 31, 2015, respectively. For additional information regarding the fair value of our loans classified as held-for-sale, see Note 13.

CREDIT QUALITY

The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As 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 loan. A second-lien loan also reduces the borrower’s equity in the home, and has a similar 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 loans. As of March 31, 2016 and December 31, 2015, based on data collected by us at loan delivery, approximately 12% and 13%, respectively, of loans in our single-family credit guarantee portfolio had second-lien financing by

third parties at origination of the first 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. For further information about concentrations of risk associated with our single-family and multifamily loans, see Note 12.

For reporting purposes:

- 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
- Loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

The table below presents the recorded investment of single-family held-for-investment loans by current LTV ratios. Our current LTV ratios are estimates based on available data through the end of each respective period presented.

	March 31, 2016				December 31, 2015			
	Current LTV Ratio				Current LTV Ratio			
(in millions)	≤ 80	> 80 to 100	> 100[1]	Total	≤ 80	> 80 to 100	> 100[1]	Total
20 and 30-year or more, amortizing fixed-rate[2]	$1,045,142	$234,710	$45,701	$1,325,553	$1,020,227	$242,948	$50,893	$1,314,068
15-year amortizing fixed-rate[2]	271,010	11,380	1,499	283,889	271,456	12,400	1,754	285,610
Adjustable-rate	58,696	4,498	190	63,384	59,724	5,055	249	65,028
Alt-A, interest-only, and option ARM	27,742	12,469	7,539	47,750	27,014	13,124	8,485	48,623
Total single-family loans	$1,402,590	$263,057	$54,929	$1,720,576	$1,378,421	$273,527	$61,381	$1,713,329

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 6.01% and 6.03% as of March 31, 2016 and December 31, 2015, respectively.

(2) The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of March 31, 2016 and December 31, 2015, we have categorized UPB of approximately $37.2 billion and $38.3 billion, respectively, of modified 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 loans provide for the interest rate to adjust, such rates and the timing of adjustment are determined at the time of modification rather than at a subsequent date.

The following table presents the recorded investment in our multifamily held-for-investment loans, by credit quality indicator based on available data through the end of each period presented. These indicators involve significant management judgment.

(in millions)	March 31, 2016	December 31, 2015
Credit risk profile by internally assigned grade:[1]		
Pass	$ 28,233	$ 29,660
Special mention	879	1,135
Substandard	381	408
Doubtful	—	—
Total	$ 29,493	$ 31,203

(1) A 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" has a 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.

MORTGAGE LOAN PERFORMANCE

The following table presents the recorded investment of our single-family and multifamily loans, held-for-investment, by payment status.

	March 31, 2016					
(in millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure[1]	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,295,280	$13,937	$4,269	$ 12,067	$1,325,553	$ 12,065
15-year amortizing fixed-rate	282,599	788	160	342	283,889	342
Adjustable-rate	62,757	312	83	232	63,384	232
Alt-A, interest-only, and option ARM	42,932	1,796	631	2,391	47,750	2,390
Total single-family	1,683,568	16,833	5,143	15,032	1,720,576	15,029
Total multifamily	29,493	—	—	—	29,493	120
Total single-family and multifamily	$1,713,061	$16,833	$5,143	$ 15,032	$1,750,069	$ 15,149

	December 31, 2015					
(in millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure[1]	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,280,247	$16,178	$5,037	$ 12,606	$1,314,068	$ 12,603
15-year amortizing fixed-rate	284,137	935	183	355	285,610	355
Adjustable-rate	64,326	359	88	255	65,028	255
Alt-A, interest-only, and option ARM	43,543	1,962	714	2,404	48,623	2,403
Total single-family	1,672,253	19,434	6,022	15,620	1,713,329	15,616
Total multifamily	31,203	—	—	—	31,203	170
Total single-family and multifamily	$1,703,456	$19,434	$6,022	$ 15,620	$1,744,532	$ 15,786

(1) Includes $7.0 billion of loans that were in the process of foreclosure as of both March 31, 2016 and December 31, 2015.

The table below summarizes the delinquency rates of loans within our single-family credit guarantee and multifamily mortgage portfolios.

(dollars in millions)	March 31, 2016	December 31, 2015
Single-family:[1]		
Non-credit-enhanced portfolio		
Serious delinquency rate	1.20 %	1.30 %
Total number of seriously delinquent loans	95,941	105,071
Credit-enhanced portfolio:[2]		
Primary mortgage insurance:		
Serious delinquency rate	1.78 %	2.06 %
Total number of seriously delinquent loans	24,290	27,813
Other credit protection:[3]		
Serious delinquency rate	0.49 %	0.58 %
Total number of seriously delinquent loans	8,888	9,422
Total single-family:		
Serious delinquency rate	1.20 %	1.32 %
Total number of seriously delinquent loans	128,044	141,255
Multifamily:[4]		
Non-credit-enhanced portfolio:		
Delinquency rate	0.03 %	0.03 %
UPB of delinquent loans	$ 19	$ 19
Credit-enhanced portfolio:		
Delinquency rate	0.04 %	0.02 %
UPB of delinquent loans	$ 48	$ 20
Total Multifamily:		
Delinquency rate	0.04 %	0.02 %
UPB of delinquent loans	$ 67	$ 39

(1) Serious delinquencies on single-family loans underlying certain REMICs, other securitization products, and other mortgage-related guarantees 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 loan may be covered by both primary mortgage insurance and other credit protection.
(3) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See "Credit Protection and Other Forms of Credit Enhancement" for more information.
(4) Multifamily delinquency performance is based on UPB of loans that are two monthly payments or more past due or those in the process of foreclosure.

LOAN LOSS RESERVES

The loan loss reserves represent estimates of probable incurred credit losses. We recognize probable incurred losses by recording a charge to the provision for credit losses in our consolidated statements of comprehensive income. The loan loss reserves include:

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- Our allowance for loan losses, which pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets; and
- Our reserve for guarantee losses, which pertains to single-family and multifamily loans underlying our K Certificates, other securitization products, and other mortgage-related guarantees.

The table below presents our loan loss reserves activity.

(in millions)	Three Months Ended March 31, 2016				2015			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
	Held by Freddie Mac	Held By Consolidated Trusts			Held by Freddie Mac	Held By Consolidated Trusts		
Single-family:								
Beginning balance	$12,516	$ 2,775	$ 57	$15,348	$18,800	$ 2,884	$ 109	$21,793
Provision (benefit) for credit losses	(435)	(29)	2	(462)	(469)	(25)	(2)	(496)
Charge-offs	(499)	(68)	(2)	(569)	(2,781)	(168)	(2)	(2,951)
Recoveries	126	2	—	128	169	5	—	174
Transfers, net[1]	(41)	139	—	98	301	(142)	—	159
Ending balance	$11,667	$ 2,819	$ 57	$14,543	$16,020	$ 2,554	$ 105	$18,679
Multifamily ending balance	$34	$ 1	$ 17	$52	$74	$ —	$ 17	$91
Total ending balance	$11,701	$ 2,820	$ 74	$14,595	$16,094	$ 2,554	$ 122	$18,770

(1) Consists of approximately $0.1 billion during both the three months ended March 31, 2016 and March 31, 2015 attributable to capitalization of past due interest on modified loans. Also includes amounts associated with reclassified single-family reserves related to our removal of loans previously held by consolidated trusts, net of reclassifications for single-family loans subsequently resecuritized after such removal.

The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 10.4% and 10.8% of the recorded investment in such loans at March 31, 2016 and December 31, 2015, respectively, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both March 31, 2016 and December 31, 2015.

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the three months ended March 31, 2016 and March 31, 2015, based on the original category of the loan before the loan was classified as a TDR. Loans 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 loan would already have been classified as a TDR.

(dollars in millions)	Three Months Ended March 31, 2016		2015	
	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family:[1]				
20 and 30-year or more, amortizing fixed-rate	10,332	$ 1,456	13,293	$ 1,919
15-year amortizing fixed-rate	1,318	94	1,652	123
Adjustable-rate	274	40	405	57
Alt-A, interest-only, and option ARM	919	169	1,388	269
Total single-family	12,843	1,759	16,738	2,368

Multifamily	2	8	—	—
Total	12,845	$ 1,767	16,738	