

FEDERAL HOME LOAN MORTGAGE CORP

Form 10-Q

October 31, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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)

Federally chartered corporation 52-0904874 8200 Jones Branch Drive McLean, Virginia 22102-3110 (703) 903-2000

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.) (Address of principal executive offices) (Zip Code) (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. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

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

As of October 16, 2018, there were 650,058,775 shares of the registrant's common stock outstanding.

Table of Contents

Table of Contents

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>1</u>
n Introduction	<u>1</u>
n Key Economic Indicators	<u>5</u>
n Consolidated Results of Operations	<u>9</u>
n Consolidated Balance Sheets Analysis	<u>18</u>
n Our Business Segments	<u>19</u>
n Risk Management	<u>58</u>
n Liquidity and Capital Resources	<u>65</u>
n Conservatorship and Related Matters	<u>73</u>
n Regulation and Supervision	<u>75</u>
n Off-Balance Sheet Arrangements	<u>77</u>
n Forward-Looking Statements	<u>78</u>
FINANCIAL STATEMENTS	<u>80</u>
OTHER INFORMATION	<u>158</u>
CONTROLS AND PROCEDURES	<u>160</u>
EXHIBIT INDEX	<u>162</u>
SIGNATURES	<u>163</u>
FORM 10-Q INDEX	<u>164</u>

Management's Discussion and Analysis Introduction

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 sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2017, or 2017 Annual Report, and our Quarterly Reports on Form 10-Q for the first and second quarters of 2018, and the Business and Risk Factors sections of our 2017 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the Glossary of our 2017 Annual Report.

You should read the following MD&A in conjunction with our 2017 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2018 included in Financial Statements. Throughout this Form 10-Q, we refer to the three months ended September 30, 2018, the three months ended June 30, 2018, the three months ended March 31, 2018, the three months ended December 31, 2017 and the three months ended September 30, 2017 as "3Q 2018," "2Q 2018," "1Q 2018," "4Q 2017" and "3Q 2017," respectively. We refer to the nine months ended September 30, 2018 and the nine months ended September 30, 2017 as "YTD 2018" and "YTD 2017," respectively.

INTRODUCTION

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 mortgage borrowers.

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. 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.

Management's Discussion and Analysis Introduction

Business Results

Portfolio Balances

Guarantee Portfolios

Investments Portfolios

Total Guarantee Portfolio

Our total guarantee portfolio grew \$117 billion, or 6%, from September 30, 2017 to September 30, 2018, driven by a 4% increase in our single-family credit guarantee portfolio and a 23% increase in our multifamily guarantee portfolio.

The growth in our single-family credit guarantee portfolio was primarily driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.

The growth in our multifamily guarantee portfolio was primarily driven by strong multifamily market fundamentals, coupled with the growth in our share of new business volume due to our strategic pricing efforts and an increase in purchase activity associated with certain targeted loans in underserved markets.

Management's Discussion and Analysis Introduction

Total Investments Portfolio

Our total investments portfolio declined \$38 billion, or 11%, from September 30, 2017 to September 30, 2018, primarily due to repayments and the active disposition of less liquid assets.

We continue to reduce the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA.

Consolidated Financial Results

Comprehensive income was \$2.6 billion in 3Q 2018, compared to \$4.7 billion in 3Q 2017.

Key Drivers:

Continued reduction in the balance of our mortgage-related investments portfolio, partially offset by continued growth in our single-family credit guarantee portfolio, resulted in lower net interest income.

Shift to benefit for credit losses in 3Q 2018, from a provision for credit losses in 3Q 2017, driven by estimated losses from hurricane activity in 3Q 2017 that increased the provision for credit losses in that period.

Recognition of \$4.5 billion in proceeds received in 3Q 2017 from a settlement with the Royal Bank of Scotland plc (RBS) related to certain of our non-agency mortgage related securities. We did not have any significant settlements in 3Q 2018.

Reduction in the statutory corporate income tax rate resulted in lower income tax expense.

Our total equity was \$5.6 billion at September 30, 2018. Because our net worth was positive, we are not requesting a draw from Treasury under the Purchase Agreement for 3Q 2018. Based on our Net Worth Amount at September 30, 2018 of \$5.6 billion and the applicable Capital Reserve Amount of \$3.0 billion, we will have a dividend requirement to Treasury in December 2018 of \$2.6 billion.

Our cumulative senior preferred stock dividend payments totaled \$114.0 billion as of September 30, 2018. Under the Purchase Agreement the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains at \$75.6 billion. In addition, the amount of available funding remaining under the Purchase Agreement is \$140.2 billion and will be reduced by any future draws.

Conservatorship and Government Support for Our Business

Since September 2008, we have been operating in conservatorship, with FHFA 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 also affect our business activities. 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 normal business activities.

Management's Discussion and Analysis Introduction

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by the Conservator, acting as successor to the rights, titles, powers and privileges of our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator.

Under the August 2012 amendment to the Purchase Agreement, our dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. Pursuant to the December 2017 Letter Agreement, the Capital Reserve Amount is \$3.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

KEY ECONOMIC INDICATORS

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

Single-Family Home Prices

National Home Prices

Commentary

Home prices continued to appreciate, increasing by 0.2% and 1.0% during 3Q 2018 and 3Q 2017, respectively, and by 5.7% and 7.0% during YTD 2018 and YTD 2017, respectively, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.

n We expect home price growth will continue in 2019, although at a slower pace than in 2018, due to a gradual increase in housing supply and a moderate increase in mortgage interest rates.

n Increases in home prices typically result in lower delinquency rates and lower loss severity, which generally reduce estimated credit losses on our total mortgage portfolio.

n Higher single-family home prices may also contribute to an increase in potential multifamily renters.

Management's Discussion and Analysis Key Economic Indicators | Interest Rates

Interest Rates

Key Market Interest Rates

Commentary

The quarterly ending and quarterly average 30-year Primary Mortgage Market Survey ("PMMS") interest rates were higher at September 30, 2018 than September 30, 2017. Increases in the PMMS rate typically result in decreases in refinance activity and U.S. single-family loan originations.

The 10-year LIBOR and 2-year LIBOR quarterly ending interest rates had larger fluctuations during the 2018 periods than during the 2017 periods. Changes in the 10-year and 2-year LIBOR interest rates affect the fair value of certain of our assets and liabilities, including derivatives, measured at fair value. A larger interest rate fluctuation from period to period generally results in larger fair value gains and losses, while a smaller fluctuation from period to period generally results in smaller fair

Management's Discussion and Analysis | Key Economic Indicators | Interest Rates

value gains and losses. In addition, the GAAP accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates change. We elect hedge accounting for certain assets and liabilities in an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business.

The quarterly ending and quarterly average short-term interest rates, as indicated by the 3-month LIBOR rate, were higher at September 30, 2018 than September 30, 2017. An increase in short-term interest rates generally increases the interest earned on our short-term investments and interest expense on our short-term funding.

For additional information on the effect of LIBOR rates on our financial results, see Our Business Segments -
n Capital Markets - Market Conditions.

Management's Discussion and Analysis | Key Economic Indicators | Unemployment Rate

Unemployment Rate

Unemployment Rate and Job Creation⁽¹⁾

Source: U.S. Bureau of Labor Statistics

(1) Excludes Puerto Rico and the U.S. Virgin Islands.

Commentary

n Average monthly net new jobs (non-farm) were higher in 3Q 2018 than 3Q 2017.

n The national unemployment rate was lower in 3Q 2018 than 3Q 2017, and in September 2018, declined to the lowest rate since December 1969.

Changes in monthly net new jobs and the national unemployment rate can affect several housing market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies. For example, decreases in the national unemployment rate typically result in lower levels of delinquencies, which generally result in a decrease in estimated credit losses on our total mortgage portfolio.

Management's Discussion and Analysis Consolidated Results of Operations

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.

The table below compares our summarized consolidated results of operations.

(Dollars in millions)			Change				Change	
	3Q 2018	3Q 2017	\$	%	YTD 2018	YTD 2017	\$	%
Net interest income	\$3,257	\$3,489	(\$232)	(7)%	\$9,278	\$10,663	(\$1,385)	(13)%
Benefit (provision) for credit losses	380	(716)	1,096	153	377	(178)	555	312
Net interest income after benefit (provision) for credit losses	3,637	2,773	864	31	9,655	10,485	(830)	(8)
Non-interest income (loss):								
Gains (losses) on extinguishment of debt	146	27	119	441	403	295	108	37
Derivative gains (losses)	728	(678)	1,406	207	2,974	(2,076)	5,050	243
Net impairment of available-for-sale securities recognized in earnings	(2)	(1)	(1)	(100)	(3)	(17)	14	82
Other gains (losses) on investment securities recognized in earnings	(441)	723	(1,164)	(161)	(1,021)	840	(1,861)	(222)
Other income (loss)	394	5,403	(5,009)	(93)	1,526	6,512	(4,986)	(77)
Total non-interest income (loss)	825	5,474	(4,649)	(85)	3,879	5,554	(1,675)	(30)
Non-interest expense:								
Administrative expense	(569)	(524)	(45)	(9)	(1,647)	(1,548)	(99)	(6)
REO operations expense	(38)	(35)	(3)	(9)	(87)	(128)	41	32
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(375)	(339)	(36)	(11)	(1,100)	(990)	(110)	(11)
Other expense	(218)	(159)	(59)	(37)	(619)	(361)	(258)	(71)
Total non-interest expense	(1,200)	(1,057)	(143)	(14)	(3,453)	(3,027)	(426)	(14)
Income (loss) before income tax (expense) benefit	3,262	7,190	(3,928)	(55)	10,081	13,012	(2,931)	(23)
Income tax (expense) benefit	(556)	(2,519)	1,963	78	(1,946)	(4,466)	2,520	56
Net income (loss)	2,706	4,671	(1,965)	(42)	8,135	8,546	(411)	(5)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(147)	(21)	(126)	(600)	(991)	324	(1,315)	(406)
Comprehensive income (loss)	\$2,559	\$4,650	(\$2,091)	(45)%	\$7,144	\$8,870	(\$1,726)	(19)%

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

Net Interest Income

Net Interest Yield Analysis

The tables below present an analysis of interest-earning assets and interest-bearing liabilities.

(Dollars in millions)	3Q 2018			3Q 2017		
	Average Balance	Interest Income (Expense) ⁽¹⁾	Average Rate	Average Balance	Interest Income (Expense) ⁽¹⁾	Average Rate
Interest-earning assets:						
Cash and cash equivalents	\$7,114	\$15	0.84 %	\$10,064	\$14	0.53 %
Securities purchased under agreements to resell	45,412	235	2.07	57,107	166	1.16
Advances to lenders and other secured lending	1,626	11	2.48	804	5	2.51
Mortgage-related securities:						
Mortgage-related securities	143,113	1,495	4.18	159,640	1,572	3.94
Extinguishment of PCs held by Freddie Mac	(89,976)	)(885	)(3.93)	(85,198)	)(811	)(3.81)
Total mortgage-related securities, net	53,137	610	4.60	74,442	761	4.09
Non-mortgage-related securities	24,799	145	2.33	15,127	60	1.62
Loans held by consolidated trusts ⁽¹⁾	1,804,347	15,759	3.49	1,731,577	14,617	3.38
Loans held by Freddie Mac ⁽¹⁾	97,456	1,028	4.22	117,298	1,250	4.26
Total interest-earning assets	2,033,891	17,803	3.50	2,006,419	16,873	3.37
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,832,707	(13,712)	)(2.99)	1,755,578	(12,663)	)(2.89)
Extinguishment of PCs held by Freddie Mac	(89,976)	)(885	3.93	(85,198)	)(811	3.81
Total debt securities of consolidated trusts held by third parties	1,742,731	(12,827)	)(2.94)	1,670,380	(11,852)	)(2.84)
Other debt:						
Short-term debt	69,435	(361)	)(2.04)	68,868	(173)	)(0.99)
Long-term debt	212,256	(1,358)	)(2.54)	259,075	(1,359)	)(2.08)
Total other debt	281,691	(1,719)	)(2.42)	327,943	(1,532)	)(1.85)
Total interest-bearing liabilities	2,024,422	(14,546)	)(2.87)	1,998,323	(13,384)	)(2.68)
Impact of net non-interest-bearing funding	9,469	—	0.01	8,096	—	0.01
Total funding of interest-earning assets	\$2,033,891	(\$14,546)	)(2.86)%	\$2,006,419	(\$13,384)	)(2.67)%
Net interest income/yield		\$3,257	0.64 %		\$3,489	0.70 %

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were \$620 million and \$634 million for loans held by consolidated trusts and \$25 million and \$37 million for loans held by Freddie Mac during 3Q 2018 and 3Q 2017, respectively.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

(Dollars in millions)	YTD 2018			YTD 2017		
	Average Balance	Interest Income (Expense) ⁽¹⁾	Average Rate	Average Balance	Interest Income (Expense) ⁽¹⁾	Average Rate
Interest-earning assets:						
Cash and cash equivalents	\$6,917	\$39	0.74 %	\$11,417	\$38	0.44 %
Securities purchased under agreements to resell	46,743	637	1.82	55,903	386	0.92
Advances to lenders and other secured lending	1,340	26	2.58	651	12	2.42
Mortgage-related securities:						
Mortgage-related securities	145,965	4,571	4.18	168,819	4,886	3.86
Extinguishment of PCs held by Freddie Mac	(89,861)	)(2,577	)(3.82)	(87,883)	)(2,456	)(3.73)
Total mortgage-related securities, net	56,104	1,994	4.74	80,936	2,430	4.00
Non-mortgage-related securities	18,017	302	2.23	18,049	207	1.54
Loans held by consolidated trusts ⁽¹⁾	1,789,433	45,908	3.42	1,720,906	43,810	3.39
Loans held by Freddie Mac ⁽¹⁾	100,382	3,174	4.22	119,843	3,870	4.31
Total interest-earning assets	2,018,936	52,080	3.44	2,007,705	50,753	3.37
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,816,897	(40,573)	)(2.98)	1,744,260	(38,023)	)(2.91)
Extinguishment of PCs held by Freddie Mac	(89,861)	)(2,577	3.82	(87,883)	)(2,456	3.73
Total debt securities of consolidated trusts held by third parties	1,727,036	(37,996)	)(2.93)	1,656,377	(35,567)	)(2.86)
Other debt:						
Short-term debt	63,576	(832)	)(1.73)	72,292	(414)	)(0.76)
Long-term debt	220,820	(3,974)	)(2.39)	270,251	(4,109)	)(2.02)
Total other debt	284,396	(4,806)	)(2.24)	342,543	(4,523)	)(1.75)
Total interest-bearing liabilities	2,011,432	(42,802)	)(2.84)	1,998,920	(40,090)	)(2.67)
Impact of net non-interest-bearing funding	7,504	—	0.01	8,785	—	0.01
Total funding of interest-earning assets	\$2,018,936	(\$42,802)	)(2.83)%	\$2,007,705	(\$40,090)	)(2.66)%
Net interest income/yield		\$9,278	0.61 %		\$10,663	0.71 %

Loan fees, primarily consisting of amortization of upfront fees, included in interest income were \$1.8 billion and (1)\$1.7 billion for loans held by consolidated trusts and \$70 million and \$132 million for loans held by Freddie Mac during YTD 2018 and YTD 2017, respectively.

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

Components of Net Interest Income

The table below presents the components of net interest income.

(Dollars in millions)	3Q 2018	3Q 2017	Change		YTD 2018	YTD 2017	Change	
			\$	%			\$	%
Contractual net interest income:								
Guarantee fee income	\$869	\$808	\$61	8 %	\$2,561	\$2,495	\$66	3 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	364	333	31	9	1,067	974	93	10
Other contractual net interest income	1,346	1,604	(258)	(16 %)	4,189	4,900	(711)	(15 %)
Total contractual net interest income	2,579	2,745	(166)	(6 %)	7,817	8,369	(552)	(7 %)
Net amortization - loans and debt securities of consolidated trusts	820	822	(2)	—	2,269	2,442	(173)	(7 %)
Net amortization - other assets and debt	(108)	(38)	(70)	(184)	(187)	(23)	(164)	(713)
Hedge accounting impact	(34)	(40)	6	15	(621)	(125)	(496)	(397)
Net interest income	\$3,257	\$3,489	(\$232)	(7 %)	\$9,278	\$10,663	(\$1,385)	(13 %)

Key Drivers:

nGuarantee fee income

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - increased primarily due to the continued growth of the core single-family loan portfolio.

nOther contractual net interest income

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - decreased due to the continued reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. See Conservatorship and Related Matters - Reducing Our Mortgage-Related Investments Portfolio Over Time for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.

nNet amortization of loans and debt securities of consolidated trusts

YTD 2018 vs. YTD 2017 - decreased primarily due to lower amortization of debt securities of consolidated trusts driven by a decrease in prepayments as a result of higher interest rates, partially offset by an increase in amortization from higher upfront fees on mortgage loans.

nNet amortization of other assets and debt

YTD 2018 vs. YTD 2017 - losses increased primarily due to less accretion on unsecuritized mortgage loans, as certain of those loans were reclassified from held-for-investment to held-for-sale and ceased amortizing, coupled with less accretion of previously recognized other-than-temporary impairments on non-agency mortgage-related securities. The decrease in accretion of other-than-temporary impairments on non-agency mortgage-related securities was due to a decline in the population of impaired securities as a result of our active disposition of these securities and a decline in new other-than-temporary impairments recognized.

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

nHedge accounting impact

YTD 2018 vs. YTD 2017 - losses increased primarily due to the inclusion of fair value hedge accounting results within net interest income during the 2018 periods. This activity was included in other income and derivative gains (losses) until the adoption of the amended hedge accounting guidance in 4Q 2017.

Freddie Mac Form 10-Q 13

Management's Discussion and Analysis Consolidated Results of Operations | Derivative Gains (Losses)

Derivative Gains (Losses)

Components of Derivative Gains (Losses)

We continue to align our derivative portfolio with the changing duration of our assets and liabilities so as to economically hedge their interest-rate risk. We manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. 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 - Market Risk.

Derivative gains (losses) includes the fair value changes and the accrual of periodic cash settlements for derivatives while not designated in qualifying hedge relationships. In addition, prior to our adoption of amended hedge accounting guidance in 4Q 2017, we included the accrual of periodic cash settlements on derivatives in qualifying hedge relationships in derivatives gains (losses).

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

(Dollars in millions)			Change				Change	
	3Q 2018	3Q 2017	\$	%	YTD 2018	YTD 2017	\$	%
Fair value change in interest-rate swaps	\$736	\$23	\$713	3,100 %	\$2,833	\$116	\$2,717	2,342 %
Fair value change in option-based derivatives	(306)	(198)	(108)	(55)	(1,020)	(519)	(501)	(97)
Fair value change in other derivatives	271	(105)	376	358	1,322	(379)	1,701	449
Accrual of periodic cash settlements	27	(398)	425	107	(161)	(1,294)	1,133	88
Derivative gains (losses)	\$728	(\$678)	\$1,406	207 %	\$2,974	(\$2,076)	\$5,050	243 %

Key Drivers:

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - During the 2018 periods, increases in long-term rates resulted in derivative fair value gains compared to derivative fair value losses during the 2017 periods. The 10-year par swap rate increased 18 and 72 basis points during 3Q 2018 and YTD 2018, respectively, compared to a 1 basis point increase and a 4 basis point decline during 3Q 2017 and YTD 2017, respectively. The interest rate increases during the 2018 periods resulted in fair value gains in our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, partially offset by fair value losses in our receive-fixed swaps and certain of our option-based derivatives.

Management's Discussion and Analysis Consolidated Results of Operations | Other Income (Loss)

Other Income (Loss)

Components of Other Income (Loss)

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

(Dollars in millions)	3Q 2018	3Q 2017	Change		YTD 2018	YTD 2017	Change	
			\$	%			\$	%
Other income (loss)								
Non-agency mortgage-related securities settlements and judgments	\$—	\$4,525	(\$4,525)	N/A	\$334	\$4,525	(\$4,191)	(93)%
Gains (losses) on loans ⁽¹⁾	(173)	203	(376)	(185)	(331)	410	(741)	(181)
Gains (losses) on held-for-sale loan purchase commitments ⁽¹⁾	267	271	(4)	(1)	564	826	(262)	(32)
Gains (losses) on debt ⁽¹⁾	12	62	(50)	(81)	42	(129)	171	133
All other	288	272	16	6	917	744	173	23
Fair value hedge accounting								
Change in fair value of derivatives in qualifying hedge relationships	—	85	(85)	N/A	—	(215)	215	N/A
Change in fair value of hedged items in qualifying hedge relationships	—	(15)	15	N/A	—	351	(351)	N/A
Total other income (loss)	\$394	\$5,403	(\$5,009)	(93)%	\$1,526	\$6,512	(\$4,986)	(77)%

⁽¹⁾ Includes fair value gains (losses) on loans, held-for-sale loan purchase commitments and debt for which we have elected the fair value option.

Key Drivers:

n 3Q 2018 vs. 3Q 2017 - Other income decreased primarily driven by:

l Recognition of \$4.5 billion in proceeds received during 3Q 2017 from the RBS settlement related to certain of our non-agency mortgage related securities.

l Larger interest rate-related fair value losses on multifamily mortgage loans for which we have elected the fair value option due to an increase in long-term interest rates, coupled with lower gains on sales of single-family seasoned loans.

l Adoption of amended hedge accounting guidance in 4Q 2017, which resulted in fair value changes for derivatives and hedged items in qualifying hedge relationships no longer being recognized in other income (loss). See Note 9 for more information.

n YTD 2018 vs. YTD 2017 - Other income decreased primarily driven by:

l Recognition of \$4.5 billion in proceeds received during YTD 2017 from the RBS settlement related to certain of our non-agency mortgage related securities.

l Larger interest rate-related fair value losses on multifamily mortgage loans and commitments for which we have elected the fair value option due to an increase in long-term interest rates, partially offset by increased gains on a higher volume of sales of single-family seasoned loans during YTD 2018 compared to YTD 2017.

l Adoption of amended hedge accounting guidance in 4Q 2017, which resulted in fair value changes for derivatives and hedged items in qualifying hedge relationships no longer being recognized in other income (loss). See Note 9 for more information.

Management's Discussion and Analysis Consolidated Results of Operations | Other Comprehensive Income (Loss)

Other Comprehensive Income (Loss)

Key Drivers of Other Comprehensive Income (Loss)

The following table presents the attribution of total other comprehensive income (loss), net of taxes and reclassification adjustments reported in our condensed consolidated statements of comprehensive income.

(Dollars in millions)	3Q		Change		YTD		Change	
	2018	3Q 2017	\$	%	2018	YTD 2017	\$	%
Other comprehensive income (loss), excluding certain items	(\$211)	\$504	(\$715)	(142)%	(\$706)	\$1,090	(\$1,796)	(165)%
Excluded items:								
Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities	(8)	(34)	26	76	(116)	(137)	21	15
Realized (gains) losses reclassified from AOCI	72	(491)	563	115	(169)	(629)	460	73
Total excluded items	64	(525)	589	112	(285)	(766)	481	63
Total other comprehensive income (loss)	(\$147)	(\$21)	(\$126)	(600)%	(\$991)	\$324	(\$1,315)	(406)%

Key Drivers:

n Other comprehensive income (loss), excluding certain items

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - shifted to losses in the 2018 periods from income in the 2017 periods primarily due to higher fair value losses compared to fair value gains on agency and non-agency mortgage-related securities classified as available-for-sale as long-term interest rates increased during the 2018 periods, while rates remained relatively flat during 3Q 2017 and decreased during YTD 2017, coupled with smaller fair value gains from less market spread tightening and lower balances on our non-agency mortgage-related securities.

Excluded items:

n Realized (gains) losses reclassified from AOCI

3Q 2018 vs. 3Q 2017 - reflected reclassified losses during 3Q 2018 compared to reclassified gains during 3Q 2017 due to sales of agency mortgage-related securities in an unrealized loss position and a lower sales volume of non-agency mortgage-related securities classified as available-for-sale as the non-agency mortgage-related securities balance continued to decline.

YTD 2018 vs. YTD 2017 - reflected smaller amounts of reclassified gains during YTD 2018 due to a lower sales volume of non-agency mortgage-related securities classified as available-for-sale as the non-agency mortgage-related securities balance continued to decline.

Management's Discussion and Analysis Consolidated Results of Operations | Other Key Drivers

Other Key Drivers

Explanation of Other Key Drivers

Key Drivers:

n Benefit (provision) for credit losses

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - shifted to benefit for credit losses in the 2018 periods from a provision for credit losses in the 2017 periods, driven by estimated losses from hurricane activity in 3Q 2017 that increased the provision for credit losses in the 2017 periods.

n Gains (losses) on extinguishment of debt

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - improved primarily due to an increase in the amount of gains recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts (i.e., PCs), as market rates increased between the time of issuance and repurchase, combined with an increase in the amount of debt securities of consolidated trusts repurchased. The amount of extinguishment gains or losses may vary, as the type and amount of PCs selected for repurchase are based on our investment and funding strategies, including our efforts to support the liquidity and price performance of our PCs.

n Other gains (losses) on investment securities recognized in earnings

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - shifted to losses in the 2018 periods from gains in the 2017 periods primarily driven by larger fair value losses on our mortgage and non-mortgage-related securities classified as trading as interest rates increased during the 2018 periods, partially offset by lower fair value gains driven by less spread tightening and lower volume on sales of our available-for-sale non-agency mortgage-related securities.

n Other expense

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - increased primarily due to recoveries in the 2017 periods of amounts previously recognized in other expense. This activity did not repeat in the 2018 periods.

n Income tax expense

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017 - decreased due to the lower statutory corporate income tax rate in the 2018 periods.

Management's Discussion and Analysis Consolidated Balance Sheets Analysis

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

(Dollars in millions)	9/30/2018	12/31/2017	Change	
			\$	%
Assets:				
Cash and cash equivalents ⁽¹⁾	\$7,038	\$9,811	(\$2,773)	(28)%
Securities purchased under agreements to resell	48,540	55,903	(7,363)	(13)
Subtotal	55,578	65,714	(10,136)	(15)
Investments in securities, at fair value	75,930	84,318	(8,388)	(10)
Mortgage loans, net	1,902,428	1,871,217	31,211	2
Accrued interest receivable	6,600	6,355	245	4
Derivative assets, net	469	375	94	25
Deferred tax assets, net	7,876	8,107	(231)	(3)
Other assets	14,576	13,690	886	6
Total assets	\$2,063,457	\$2,049,776	\$13,681	1 %
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	\$6,418	\$6,221	\$197	3 %
Debt, net	2,041,990	2,034,630	7,360	—
Derivative liabilities, net	295	269	26	10
Other liabilities	9,195	8,968	227	3
Total liabilities	2,057,898	2,050,088	7,810	—
Total equity	5,559	(312)	5,871	1,882
Total liabilities and equity	\$2,063,457	\$2,049,776	\$13,681	1 %

(1) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

Key Drivers:

As of September 30, 2018 compared to December 31, 2017:

Cash and cash equivalents and securities purchased under agreements to resell affect one another and changes in the balances should be viewed together (e.g., cash and cash equivalents can be invested in securities purchased under agreements to resell or other investments). The decrease in the combined balance was primarily due to lower near term cash needs for fewer upcoming maturities and anticipated calls of other debt.

Investments in securities, at fair value decreased as we continued to reduce the mortgage-related investments portfolio during 2018 as required by the Purchase Agreement and FHFA.

Total equity increased primarily as a result of higher comprehensive income in 3Q 2018 compared to 4Q 2017, combined with our ability to retain equity as a result of an increase in the applicable Capital Reserve Amount, which is \$3.0 billion as of January 1, 2018.

Management's Discussion and Analysis Our Business Segments | Segment Earnings

OUR BUSINESS SEGMENTS

We have three reportable segments, which are based on the way we manage our business.

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, sale, securitization and guarantee of multifamily loans and securities, our investments in those loans and securities and the management of multifamily mortgage credit risk and market spread risk.

Capital Markets - reflects results from managing our mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans and the credit risk of single-family performing and reperforming loans), the treasury function, securitization activities and our interest-rate risk.

Certain activities that are not part of a reportable segment, such as material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments, are included in the All Other category.

Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses to our three reportable segments. For more information on our segment reclassifications, see Note 13.

Segment Comprehensive Income

The graph below shows our comprehensive income by segment.
(In millions)

Freddie Mac Form 10-Q 20

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Guarantee

Market Conditions

The graphs and related discussion below 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 August 17, 2018 (latest available IMF purchase/refinance information).

Single-Family Serious Delinquency Rates

Source: National Delinquency Survey from the Mortgage Bankers Association. Data as of August 16, 2018 (latest available NDS information).

Commentary

n U.S. single-family loan origination volume decreased to \$435 billion in 3Q 2018 from \$495 billion in 3Q 2017, driven by lower refinance volume as a result of higher mortgage interest rates in 3Q 2018. Mortgage origination data is from Inside Mortgage Finance as of October 26, 2018.

n We expect continued growth in U.S. single-family home purchase volume due to a gradual increase in housing supply and home price appreciation, while a moderate increase in mortgage interest rates is expected to result in a lower refinance volume. Freddie Mac's single-family loan purchase volumes typically follow a similar trend.

n The single-family serious delinquency rate in the U.S. decreased during 2Q 2018 as the impacts from the hurricanes in 3Q 2017 subsided and the general economy continued to improve. Freddie Mac's serious delinquency rate typically follows a similar trend.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Business Results

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

New Business Activity

UPB of Single-Family Loan Purchases and Guarantees by Loan Purpose
(In billions)

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

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

n Our loan purchase and guarantee activity decreased during the 2018 periods compared to the 2017 periods primarily due to a decline in refinance activity as a result of higher average mortgage interest rates, partially offset by higher home purchase volume.

n Freddie Mac purchases loans originated by lenders using Fannie Mae's Automated Underwriting System (AUS). Fannie Mae announced changes to its AUS in July 2017, which led to an increase in eligibility for purchase of new loans with debt-to-income ratios between 45% and 50% (high DTI). These loans have minimal impact on our single-family credit guarantee portfolio, but we are monitoring the overall credit quality and performance of these loans. Although the volume of our purchases of these high DTI loans may increase over time, we expect to purchase fewer loans with high DTI ratios that have other high-risk characteristics.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio
Commentary

The single-family credit guarantee portfolio increased at an annualized rate of approximately 3% from December 31, 2017 to September 30, 2018, driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.

The core single-family loan portfolio grew to 81% of the single-family credit guarantee portfolio at September 30, 2018, compared to 78% at December 31, 2017.

The legacy and relief refinance single-family loan portfolio declined to 19% of the single-family credit guarantee portfolio at September 30, 2018, compared to 22% at December 31, 2017, driven primarily by liquidations.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Guarantee Fees

We receive fees for guaranteeing the payment of principal and interest to investors in our mortgage-related securities. These fees consist primarily of a combination of base contractual guarantee fees paid on a monthly basis and initial upfront payments. The average portfolio Segment Earnings guarantee fee rate recognizes upfront fee income over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront fee income is recognized immediately. In contrast, the average guarantee fee rate charged on new acquisitions recognizes upfront fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations. See MD&A - Our Business Segments - Single-family Guarantee - Business Overview - Guarantee Fees in our 2017 Annual Report for more information on our guarantee fees.

Average Portfolio Segment Earnings Guarantee Fee Rate⁽¹⁾⁽²⁾

(In bps)

Referenced footnotes are included after the next chart.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Average Guarantee Fee Rate⁽¹⁾ Charged on New Acquisitions

(In bps)

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

(2) Reflects an average rate for our total single-family credit guarantee portfolio and is not limited to purchases in the applicable period.

Commentary

The average portfolio Segment Earnings guarantee fee rate declined during 3Q 2018 compared to 3Q 2017 due to a decrease in recognition of upfront fees driven by a lower prepayment rate. The guarantee fee rate remained relatively unchanged during YTD 2018 compared to YTD 2017.

The average guarantee fee rate charged on new acquisitions decreased during the 2018 periods compared to the 2017 periods due to a decline in loans that were assessed with additional risk-based fees, as the mix of loans we acquired changed.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Credit Risk Transfer (CRT) Activities

We transfer credit risk on a portion of our single-family credit guarantee portfolio to the private market, which reduces the risk of future losses to us and taxpayers when borrowers go into default. Our primary CRT activities are our STACR debt note and ACIS transactions, in which we pay interest to investors or premiums to insurers in exchange for their taking on a portion of the credit risk on the mortgage loans in the related reference pool. These payments effectively reduce our guarantee fee income from the PCs backed by the mortgage loans in the related reference pools. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Credit Risk Transfer Transactions in our 2017 Annual Report for more information on our CRT transactions.

The following charts present the issuance amounts for the CRT transactions that occurred during 3Q 2018 and the cumulative issuance amounts for all CRT transactions as of September 30, 2018 by loss position and the party holding each loss position, excluding senior subordinate securitization structures and seller indemnification agreements.

New CRT Transactions during 3Q 2018⁽¹⁾

(In billions)

Freddie Mac

Senior

\$30.8

Mezzanine

Freddie Mac ⁽⁵⁾	ACIS ⁽³⁾⁽⁵⁾	Other CRT	Reference Pool
(\$0.2)	\$0.5	\$0.6	\$32.0

First Loss⁽⁴⁾

Freddie Mac ⁽⁵⁾	ACIS ⁽⁵⁾	Other CRT
(\$0.1)	\$0.2	\$0.2

Cumulative CRT Transactions as of September 30, 2018⁽¹⁾⁽²⁾

(In billions)

Freddie Mac

Senior

\$1,027.1

Mezzanine

Freddie Mac	ACIS ⁽³⁾	STACR Debt Notes	Other CRT	Reference Pool
\$2.4	\$9.3	\$23.6	\$1.8	\$1,074.2

First Loss⁽⁴⁾

Freddie Mac	ACIS	STACR Debt Notes	Other CRT
\$5.6	\$1.3	\$2.2	\$0.9

- (1) The amounts represent the UPB upon issuance of CRT transactions.
- (2) For the current outstanding coverage provided by our CRT transactions, see Credit Enhancements.
- (3) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed separately. The 3Q 2018 and Cumulative presentations have been modified to reflect this change.
- (4) First loss includes all B tranches in our STACR debt notes and their equivalent in ACIS and Other CRT transactions.
- (5) During 3Q 2018, amounts were transferred from the Freddie Mac category to the ACIS category as we completed new ACIS transactions related to reference pools in transactions executed in prior periods.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Commentary

During YTD 2018, we transferred a portion of credit risk associated with \$237.9 billion in UPB of loans in our single-family credit guarantee portfolio through STACR debt note, ACIS, senior subordinate securitization structure, seller indemnification and other CRT transactions.

As of September 30, 2018, we had cumulatively transferred a portion of credit risk on nearly \$1.1 trillion of our single-family mortgages, based upon the UPB at issuance of the CRT transactions.

FHFA's Conservatorship Capital Framework (CCF) capital needed for credit risk was reduced by approximately 60% through CRT transactions on originations in the twelve months ended September 30, 2017.

The reduction in the amount of CCF capital needed for credit risk on new originations is calculated as modeled conservatorship credit capital released from the underlying single-family CRT transaction reference pool divided by total modeled conservatorship credit capital on new originations at the time of purchase. For more information on the CCF and the calculation of modeled conservatorship capital, see Risk Management - Conservatorship Capital Framework and Risk Management - Conservatorship Capital Framework - Return on Modeled Conservatorship Capital.

In September 2018, we introduced an enhanced CRT structure designed to reduce CCF capital needed for credit risk by approximately 80% on related new originations. This enhanced structure sells more of the first loss position and extends the maturity from 12.5 to 30 years.

During YTD 2018, we paid \$562 million in interest expense, net of reinvestment income, on our outstanding STACR transactions and \$227 million in ACIS premiums, compared to \$455 million in interest expense, net of reinvestment income, on our outstanding STACR transactions and \$170 million in ACIS premiums during YTD 2017.

As of September 30, 2018, we had experienced minimal write-downs on our STACR debt notes and have filed minimal claims for reimbursement of losses under our ACIS transactions.

We are continually evaluating our credit risk transfer strategy and make changes depending on market conditions and our business strategy. The aggregate cost of our credit risk transfer activity, as well as the amount of risk transferred, will continue to increase as we continue to do new transactions.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Credit Enhancements

The table below provides information on the total current and protected UPB and maximum coverage associated with credit enhanced loans in our single-family credit guarantee portfolio as of September 30, 2018 and December 31, 2017, respectively. The table includes all types of single-family credit enhancements. See Note 6 for additional information about our single-family credit enhancements.

(In millions)	September 30, 2018		December 31, 2017	
	Total	Current and Maximum Protected UPB ⁽¹⁾	Total	Current and Maximum Protected UPB ⁽¹⁾
Primary mortgage insurance	\$366,731	\$93,931	\$334,189	\$85,429
STACR debt note	621,350	18,078	604,356	17,788
ACIS transactions ⁽³⁾	753,298	8,375	625,082	6,933
Senior subordinate securitization structures	32,418	3,260	12,283	1,913
Other ⁽³⁾⁽⁴⁾	120,315	9,208	8,623	6,282
Less: UPB with more than one type of credit enhancement	(921,750)	—	(775,751)	—
Single-family credit guarantee portfolio with credit enhancement	972,362	132,852	808,782	118,345
Single-family credit guarantee portfolio without credit enhancement	902,604	—	1,020,098	—
Total	\$1,874,966	\$132,852	\$1,828,880	\$118,345

Except for the majority of our STACR and ACIS transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related loans. For STACR and ACIS transactions,

(1) total current and protected UPB represents the UPB of the assets included in the reference pool. For senior subordinate securitization structures, total current and protected UPB represents the UPB of the guaranteed securities.

Except for senior subordinate securitization structures, this represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements. Specifically, for STACR transactions, this represents the outstanding balance held by third parties, and for ACIS transactions, this represents the remaining aggregate limit of insurance purchased from third parties. For senior subordinate securitization structures, this represents the UPB of the securities that are subordinate to our guarantee and held by third parties, which could provide protection by absorbing first losses.

(3) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed under "Other" transactions. The current and prior period presentation has been modified to reflect this change.

(4) Includes seller indemnification, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

Commentary

n We had coverage remaining of \$132.9 billion and \$118.3 billion on our single-family credit guarantee portfolio as of September 30, 2018 and December 31, 2017, respectively. Credit risk transfer transactions provided 24.5% and 22.4% of the coverage remaining at those dates, respectively.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

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.

September 30, 2018											
CLTV ≤ 80				CLTV > 80 to 100				CLTV > 100			
All Loans											
(Credit score)											

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Alt-A and Subprime Loans

While we have referred 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. 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 have characterized single-family loans based upon their overall credit quality at the time of origination, including as 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 \$0.9 billion and \$1.1 billion of security collateral underlying our other securitization products at September 30, 2018 and December 31, 2017, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between the prime and subprime categories, if they are 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 continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, as part of our relief refinance initiative, or as 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 September 30, 2018, we have purchased approximately \$36.3 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including \$0.1 billion in 3Q 2018.

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

	September 30, 2018				December 31, 2017			
	UPB	CLTV	%	SDQ	UPB	CLTV	%	SDQ
(Dollars in billions)			Modified Rate				Modified Rate	
Alt-A	\$24.564	%	24.0	% 4.40%	\$27.167	%	24.1	% 5.62%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during YTD 2018 primarily due to borrowers refinancing into other mortgage products, foreclosure sales and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida and Nevada.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Loan Performance

Serious Delinquency Rates

Delinquency Rates for Loans One Month and Two Months Past Due

Commentary

Total serious delinquency rate on our single-family credit guarantee portfolio was lower as of September 30, 2018 compared to September 30, 2017 due to our continued loss mitigation efforts, sales of certain seriously delinquent loans, home price appreciation, a low unemployment rate, and the reduced impacts from the hurricanes in 3Q 2017. This improvement was also driven by the continued shift in the single-family credit guarantee portfolio mix, as the legacy and relief refinance single-family loan portfolio runs off and we add higher credit quality loans to our core single-family loan portfolio. Delinquency rates for both loans one month past due and loans two months past due were similarly affected.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Credit Performance

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

(Dollars in millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Charge-offs, gross	\$1,277	\$1,140	\$2,248	\$4,033
Recoveries	(119)	(145)	(341)	(327)
Charge-offs, net	1,158	995	1,907	3,706
REO operations expense	38	35	87	128
Total credit losses	\$1,196	\$1,030	\$1,994	\$3,834

Total credit losses (in bps) 25.4 22.7 14.2 28.4

The table below summarizes the carrying value for individually impaired single-family loans on our condensed consolidated balance sheets for which we have recorded an allowance determined on an individual basis.

(Dollars in millions)	September 30, 2018		September 30, 2017	
	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	364,704	\$54,415	485,709	\$78,869
New additions	45,348	7,066	29,867	4,130
Repayments and reclassifications to held-for-sale	(92,662)	(14,875)	(113,933)	(21,828)
Foreclosure sales and foreclosure alternatives	(5,907)	(796)	(8,169)	(1,122)
TDRs, at September 30	311,483	45,810	393,474	60,049
Loans impaired upon purchase	2,814	188	5,782	380
Total impaired loans with an allowance recorded	314,297	45,998	399,256	60,429
Allowance for loan losses		(5,137)		(7,706)
Net investment, at September 30		\$40,861		\$52,723

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

(In millions)	September 30, 2018	December 31, 2017
TDRs on accrual status	\$45,073	\$51,644
Non-accrual loans	11,855	17,748
Total TDRs and non-accrual loans	\$56,928	\$69,392

Allowance for loan losses associated with:

TDRs on accrual status	\$4,291	\$5,257
Non-accrual loans	1,101	1,883
Total	\$5,392	\$7,140

(In millions)	YTD 2018	YTD 2017
Foregone interest income on TDRs and non-accrual loans ⁽¹⁾	\$965	\$1,325

Represents the amount of interest income that we did not recognize but would have recognized during the period (1) for loans outstanding at the end of each period had the loans performed according to their original contractual terms.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Commentary

n As of September 30, 2018, 48% of the allowance for loan losses for single-family mortgage loans related to interest rate concessions provided to borrowers as part of loan modifications.

n Most of our modified single-family loans, including TDRs, were current and performing at September 30, 2018.

We expect our allowance for loan losses associated with existing single-family TDRs to decline over time as we continue to sell reperforming loans. In addition, the allowance for loan losses will decline as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.

n See Note 4 for information on our single-family allowance for loan losses.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Loss Mitigation Activities

Loan Workout Activity⁽¹⁾

(UPB in billions, number of loan workouts in thousands)

(1) Foreclosure alternatives consist of short sales and deeds in lieu of foreclosure. Home retention actions consist of forbearance agreements, repayment plans and loan modifications.

Commentary

n Our loan workout activity increased in the 2018 periods, driven by the impact from the hurricanes in 3Q 2017.

n We continue our loss mitigation efforts through our relief refinance, modification and other initiatives.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

REO Activity

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

	3Q 2018		3Q 2017		YTD 2018		YTD 2017	
	Number		Number		Number		Number	
(Dollars in millions)	of	Amount	of	Amount	of	Amount	of	Amount
	Properties		Properties		Properties		Properties	
Beginning balance — REO	7,135	\$777	9,915	\$1,046	8,299	\$900	11,418	\$1,215
Additions	2,506	247	2,853	282	7,870	759	9,697	949
Dispositions	(2,622)	(256)	(3,622)	(348)	(9,150)	(891)	(11,969)	(1,184)
Ending balance — REO	7,019	768	9,146	980	7,019	768	9,146	980
Beginning balance, valuation allowance		(6)		(10)		(14)		(17)
Change in valuation allowance		(2)		(4)		6		3
Ending balance, valuation allowance		(8)		(14)		(8)		(14)
Ending balance — REO, net		\$760		\$966		\$760		\$966
Commentary								

Our REO ending inventory declined in the 2018 periods primarily due to a decrease in REO acquisitions driven by fewer loans in foreclosure and a large proportion of property sales to third parties at foreclosure.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Financial Results

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

(Dollars in millions)	3Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Guarantee fee income	\$1,576	\$1,581	(\$5)	— %	\$4,660	\$4,505	\$155	3 %
Benefit (provision) for credit losses	196	(826)	1,022	124	327	(775)	1,102	142
Other non-interest income (loss)	348	403	(55)	(14)	561	1,081	(520)	(48)
Administrative expense	(371)	(353)	(18)	(5)	(1,070)	(1,018)	(52)	(5)
REO operations expense	(42)	(38)	(4)	(11)	(101)	(138)	37	27
Other non-interest expense	(413)	(348)	(65)	(19)	(1,192)	(1,001)	(191)	(19)
Segment Earnings before income tax expense	1,294	419	875	209	3,185	2,654	531	20
Income tax expense	(229)	(164)	(65)	(40)	(615)	(911)	296	32
Segment Earnings, net of taxes	1,065	255	810	318	2,570	1,743	827	47
Total other comprehensive income (loss), net of tax	(2)	—	(2)	N/A	(8)	(2)	(6)	(300)
Total comprehensive income	\$1,063	\$255	\$808	317 %	\$2,562	\$1,741	\$821	47 %

Key Business Drivers:

n 3Q 2018 vs. 3Q 2017

l Lower upfront fee amortization income driven by lower prepayments, offset by higher contract guarantee fee income due to continued growth in our single-family credit guarantee portfolio, resulted in guarantee fee income remaining relatively unchanged.

l Shift to benefit for credit losses in 3Q 2018, from a provision for credit losses in 3Q 2017, driven by estimated losses from hurricane activity in 3Q 2017 that increased the provision for credit losses in that period.

l Small fair value losses on STACR debt notes in 3Q 2018 compared to fair value gains in 3Q 2017 as a result of market spreads between STACR yields and LIBOR remaining relatively unchanged in 3Q 2018, while spreads widened in 3Q 2017.

n YTD 2018 vs. YTD 2017

l Continued growth in our single-family credit guarantee portfolio and higher upfront fee amortization income resulted in increased guarantee fee income.

l Shift to benefit for credit losses during YTD 2018, from a provision for credit losses during YTD 2017, primarily driven by estimated losses from hurricane activity in 3Q 2017 that increased the provision for credit losses in that period.

l Losses during YTD 2018 compared to gains during YTD 2017 on single-family seasoned loan reclassifications between held-for-investment and held-for-sale.

l Small fair value gains on STACR debt notes during YTD 2018 compared to fair value losses during YTD 2017 as a result of market spreads between STACR yields and LIBOR remaining relatively unchanged during YTD 2018, while spreads tightened during YTD 2017.

Management's Discussion and Analysis Our Business Segments | Multifamily

Multifamily
Market Conditions

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

Change in Effective Rents

Source: REIS, Inc.

Apartment Vacancy Rates

Source: REIS, Inc.

Commentary

Growth in effective rent (i.e., the average rent paid by the tenant over the term of the lease, adjusted for concessions by the landlord and costs borne by the tenant) for 3Q 2018 remained strong relative to the long-term average, primarily due to an increase in potential renters driven by healthy employment levels, higher wages, higher single-family home prices, rising mortgage interest rates and a growing demand for rental housing due to lifestyle changes and demographic trends.

While vacancy rates rose slightly during 3Q 2018 compared to 2Q 2018, these rates remain well below the long-term average. Net absorptions continued to lag new apartment completions in 3Q 2018. Although we expect continued strong demand, it may take longer to absorb new units compared to prior quarters.

Our financial results for 3Q 2018 were not significantly affected by these relatively stable market conditions.

Management's Discussion and Analysis Our Business Segments | Multifamily

K Certificate Benchmark Spreads

Source: Independent dealers

Commentary

The valuation of our securitization pipeline and the profitability of our primary risk transfer securitization product, the K Certificate, are affected by both changes in K Certificate benchmark spreads and deal-specific attributes, such as tranche size, risk distribution and collateral characteristics (loan term, coupon type, prepayment restrictions and underlying property type). These market spread movements and deal-specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline and by entering into certain spread-related derivatives. Spread tightening generally results in fair value gains, while spread widening generally results in fair value losses.

K Certificate benchmark spreads are market-quoted spreads over the U.S. swap curve. The 10-year fixed-rate spread represents the spread for the largest guaranteed class of a typical fixed-rate K Certificate, while the 7-year floating-rate spread represents the spread for the largest guaranteed class of a typical floating-rate K Certificate.

Management's Discussion and Analysis Our Business Segments | Multifamily

Business Results

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

New Business Activity

Multifamily New Business Activity
(UPB in billions)

Commentary

The 2018 Conservatorship Scorecard annual production cap was \$35.0 billion, unchanged from the first half of the year. The production cap is subject to reassessment throughout the year by FHFA to determine whether an increase in the cap is appropriate based on a stronger than expected overall market. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2018.

Outstanding purchase commitments were \$24.3 billion and \$21.6 billion as of September 30, 2018 and September 30, 2017, respectively. Both periods include purchase commitments for which we have elected the fair value option.

Management's Discussion and Analysis Our Business Segments | Multifamily

The combination of our new business activity and outstanding purchase commitments was higher for the 2018 periods than the 2017 periods due to continued strong demand for multifamily loan products and our strategic pricing efforts.

Approximately 41% and 40% of our multifamily new business activity during 3Q 2018 and YTD 2018, respectively, counted towards the 2018 Conservatorship Scorecard production cap, while the remaining 59% and 60% was considered uncapped.

Our uncapped new business activity increased during YTD 2018 compared to YTD 2017 as we continued our efforts to support borrowers in certain property types and communities that meet the criteria for affordability and Green Advantage loans.

Approximately 91% of our 3Q 2018 new business activity compared to 87% of our 3Q 2017 new business activity was intended for our securitization pipeline. Combined with market demand for our securities, our 3Q 2018 new business activity will be a driver for securitizations in the next two quarters.

Multifamily Portfolio and Market Support

Total Multifamily Portfolio

Multifamily Mortgage Investments Portfolio

Freddie Mac Form 10-Q 42

Management's Discussion and Analysis Our Business Segments | Multifamily

Multifamily Market Support

The following table summarizes our support of the multifamily market.

(UPB in millions)	September 30, December 31,	
	2018	2017
Unsecuritized mortgage loans held-for-sale	\$18,566	\$20,537
Unsecuritized mortgage loans held-for-investment	13,105	17,702
Other ⁽¹⁾	458	473
Mortgage-related securities ⁽²⁾	7,164	7,451
Guarantee portfolio	225,961	203,074
Total multifamily portfolio	265,254	249,237
Add: Unguaranteed securities ⁽³⁾	34,287	30,890
Less: Acquired mortgage-related securities ⁽⁴⁾	(6,930)	(7,109)
Total multifamily market support	\$292,611	\$273,018

(1) Reflects the carrying value of LIHTC investments and the UPB of non-mortgage loans, including financing provided to investment funds.

(2) Includes mortgage-related securities acquired by us from our securitizations. We have not invested in unguaranteed securities that are in a first loss position.

(3) Reflects the UPB of unguaranteed securities issued as part of our securitizations and amounts related to loans sold to investment funds that were not financed by Freddie Mac.

(4) Reflects the UPB of mortgage-related securities that were both issued and acquired by us. This UPB must be removed to avoid double-counting the exposure, as it is already reflected within the guarantee portfolio and/or unguaranteed securities.

Commentary

Our total multifamily portfolio increased during YTD 2018, primarily due to our strong new loan purchase and securitization activity, which is attributable to healthy multifamily market fundamentals and a strong demand for certain of our securitization products. Also, we expect continued portfolio growth as purchase and securitization activities should outpace run-off.

At September 30, 2018, the UPB of our unsecuritized held-for-sale mortgage loans, which are measured at fair value or lower-of-cost-or-fair-value, decreased from December 31, 2017. The decrease was primarily driven by ongoing securitizations, partially offset by new held-for-sale loan purchases.

At September 30, 2018, approximately 73% of our held-for-sale loans and held-for-sale loan commitments, both of which are measured at fair value, were fixed-rate, while the remaining 27% were floating-rate.

We expect our guarantee portfolio to continue to grow as a result of ongoing securitizations, which we expect to be driven by continued strong new business activity.

Management's Discussion and Analysis Our Business Segments | Multifamily

Net Interest Yield and Weighted Average Portfolio Balance

Net Interest Yield Earned
(Weighted average balance in billions)

Commentary

Net interest yield decreased in 3Q 2018 compared to 3Q 2017 due to higher average funding costs on our
n held-for-sale mortgage loans driven by higher average interest rates.

Net interest yield increased during YTD 2018 compared to YTD 2017 due to higher prepayment income received
n from our interest-only securities, coupled with an increase in our interest-only security holdings which generally
n have higher yields relative to our non-interest-only securities and loans, partially offset by higher average funding
costs on our held-for-sale mortgage loans driven by higher interest rates.

The weighted average portfolio balance of interest-earning assets decreased during the 2018 periods due to the
n run-off of our legacy held-for-investment loans.

Freddie Mac Form 10-Q 44

Credit Risk Transfer Activity

Credit Risk Transfer Activity and New Business Activity
(UPB in billions)

Freddie Mac Form 10-Q 45

Management's Discussion and Analysis Our Business Segments | Multifamily

Credit Risk Transfer Activity⁽¹⁾
(UPB in billions)

(1) The amounts disclosed in the bar graph above represent the UPB of credit risk transferred to third parties.
Commentary

The structures for credit risk transfer transactions, primarily the K Certificate and SB Certificate structures, vary by deal. Structural deal features such as term, type of underlying loan product, and subordination levels generally influence the deal's size and risk profile, which ultimately affect the guarantee fee rate set by Freddie Mac, as Guarantor, at the time of securitization.

We executed credit risk transfer transactions on \$15.4 billion UPB during 3Q 2018 and on \$294.3 billion UPB since 2009. Through these transactions, we transferred a large majority of the expected and stress credit risk of the underlying assets, primarily by issuing unguaranteed subordinated securities, as part of our K Certificate and SB Certificate transactions. Also, we began selling certain of our loans to investment funds in 3Q 2017, resulting in the transfer of the associated credit risk of those loans to third parties.

Management's Discussion and Analysis Our Business Segments | Multifamily

nThe UPB of our credit risk transfer transactions was relatively flat during 3Q 2018 compared to 3Q 2017.

nAs of September 30, 2018, we had cumulatively transferred the large majority of credit risk on the multifamily guarantee portfolio.

CCF capital needed for credit risk was reduced by approximately 90% through CRT transactions on originations in the twelve months ended September 30, 2017; we plan similar risk reduction transactions for this quarter's originations.

The reduction in the amount of CCF capital needed for credit risk on new originations is calculated as modeled conservatorship credit capital released from CRT transactions (primarily through K Certificates and SB Certificates) divided by total modeled conservatorship credit capital on new originations at the time of purchase. For more information on the CCF and the calculation of modeled conservatorship capital, see Risk Management - Conservatorship Capital Framework and Risk Management - Conservatorship Capital Framework - Return on Modeled Conservatorship Capital.

In addition to transferring a large majority of the expected and stress credit risk, nearly all of our credit risk transfer transactions also shifted certain non-credit risks associated with the underlying assets, such as interest-rate risk and liquidity risk, away from Freddie Mac to third-party investors.

nBased on the strength of our new business activity and our outstanding purchase commitments for YTD 2018, we expect our credit risk transfer activity for the full year 2018 to exceed our full year 2017 activity.

While our K Certificate and SB Certificate issuances continue to be our primary mechanism to transfer multifamily mortgage credit risk and certain non-credit risk, we employ other methods as well and expect to continue to develop new risk transfer initiatives.

Financial Guarantee Activity

Unearned Guarantee Fees on New Guarantee Contracts
(Dollars in millions)

Remaining Unearned Guarantee Fees

Freddie Mac Form 10-Q 48

Commentary

We earn guarantee fees in exchange for providing our guarantee of some or all of the securities we issue as part of our securitization products. Each time we enter into a financial guarantee contract, we initially recognize unearned guarantee fees on our balance sheet, which represent the present value of future guarantee fees we expect to receive in cash. We recognize these fees in Segment Earnings over the expected remaining guarantee term. While we expect to collect these future fees based on historical performance, the actual amount collected will depend on the performance of the underlying collateral subject to our financial guarantee.

n New unearned guarantee fees decreased during 3Q 2018 compared to 3Q 2017 primarily due to a decrease in the guaranteed UPB of our securitizations, coupled with lower average guarantee fee rates due to underlying loan products that, by their nature and design, have less risk and for which we therefore set a lower guarantee fee rate.

n New unearned guarantee fees increased during YTD 2018 compared to YTD 2017 primarily due to an increase in the guaranteed UPB of our securitizations during YTD 2018, offset by lower average guarantee fee rates due to underlying loan products that, by their nature and design, have less risk and for which we therefore set a lower guarantee fee rate.

n The remaining balance of unearned guarantee fees increased during YTD 2018, as the increase attributable to the growth of our securitization volume outpaced the decrease due to seasoning and run-off.

Management's Discussion and Analysis Our Business Segments | Multifamily

Financial Results

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

(Dollars in millions)			Change				Change	
	3Q 2018	3Q 2017	\$	%	YTD 2018	YTD 2017	\$	%
Net interest income	\$277	\$342	(\$65)	(19)%	\$841	\$905	(\$64)	(7)%
Guarantee fee income	210	170	40	24	609	483	126	26
Benefit (provision) for credit losses	2	(22)	24	109	20	(10)	30	300
Gains (losses) on loans and other non-interest income	(82)	183	(265)	(145)	(437)	831	(1,268)	(153)
Derivative gains (losses)	375	22	353	1,605	1,254	(31)	1,285	4,145
Administrative expense	(109)	(98)	(11)	(11)	(315)	(288)	(27)	(9)
Other non-interest expense	(14)	(11)	(3)	(27)	(32)	(44)	12	27
Segment Earnings before income tax expense	659	586	73	12	1,940	1,846	94	5
Income tax expense	(113)	(212)	99	47	(374)	(634)	260	41
Segment Earnings, net of taxes	546	374	172	46	1,566	1,212	354	29
Total other comprehensive income (loss), net of tax	(44)	(4)	(40)	(1,000)	(136)	65	(201)	(309)
Total comprehensive income (loss)	\$502	\$370	\$132	36%	\$1,430	\$1,277	\$153	12%

Key Business Drivers:

n3Q 2018 vs. 3Q 2017

Lower net interest yields coupled with a decline in our weighted average portfolio balance of interest-earning assets, resulted in lower net interest income.

Continued growth in our multifamily guarantee portfolio, resulted in increased guarantee fee income.

Interest rate-related changes in fair value on assets and liabilities recorded at fair value in the Multifamily segment are generally offset by derivative gains (losses). Any differences between these interest rate-related changes in fair value and derivative gains (losses) affect Segment Earnings. In 3Q 2018, we recognized larger net gains due to an increase in the difference between these interest rate-related fair value changes and derivative gains (losses) that resulted from the relatively large increase in interest rates and changes in the composition of the assets, liabilities and derivatives recorded at fair value during 3Q 2018.

nYTD 2018 vs. YTD 2017

A decline in our weighted average portfolio balance of interest-earning assets, partially offset by higher prepayment income received from interest-only securities and income on an increased balance of our interest-only securities, resulted in lower net interest income.

Continued growth in our multifamily guarantee portfolio resulted in increased guarantee fee income.

Interest rate-related changes in fair value on assets and liabilities recorded at fair value in the Multifamily segment are generally offset by derivative gains (losses). Any differences between these interest rate-related changes in fair value and derivative gains (losses) affect Segment Earnings. In YTD 2018, we recognized larger net gains due to an increase in the difference

between these interest rate-related fair value changes and derivative gains (losses) that resulted from the relatively large increase in interest rates and changes in the composition of the assets, liabilities and derivatives recorded at fair value during YTD 2018.

Capital Markets

Market Conditions

The following graphs and related discussion present the par swap rate curves as of the end of each comparative period. Changes in par swap rates can significantly affect the fair value of our debt, derivatives and mortgage and non-mortgage-related securities. In addition, the GAAP accounting treatment for our financial assets and liabilities, including derivatives (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates change. We elect hedge accounting for certain assets and liabilities in an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business.

Par Swap Rate Curves

Source: BlackRock

Commentary

The par swap curve flattened during the 2018 periods as short-term interest rates increased more than long-term interest rates. Long-term interest rates increased during the 2018 periods, while rates remained relatively flat during 3Q 2017 and decreased during YTD 2017. The increases in the 2018 periods resulted in larger fair value gains for our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, partially offset by larger fair value losses for our receive-fixed interest rate swaps, certain of our option-based derivatives and the vast majority of our investments in securities.

The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs.

As the Capital Markets segment is responsible for managing interest-rate risk for the company, its Segment Earnings may include gains and losses on certain economic hedges on financial assets and liabilities primarily reported in the Single-family Guarantee segment.

Business Results

The graphs and related discussion below present the business results of our Capital Markets segment.

Investing Activity

The following graphs present the Capital Markets 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 year-end limits. The balance of our mortgage investments portfolio declined 8.1% from December 31, 2017 to September 30, 2018.

The balance of our other investments and cash portfolio decreased by 7.7%, primarily due to reduced near term cash needs as of September 30, 2018 compared to December 31, 2017.

The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 28.4% at December 31, 2017 to 27.7% at September 30, 2018. We continued to actively reduce our holdings of less liquid assets during YTD 2018 by selling \$6.2 billion of reperforming loans and \$2.2 billion of non-agency mortgage-related securities. Our sales of reperforming loans involved securitization of the loans using senior subordinate structures.

The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased at a faster pace than the overall decline of our mortgage investments portfolio.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balances

(UPB in billions)

Commentary

Net interest yield increased 33 and 22 basis points during 3Q 2018 compared to 3Q 2017 and YTD 2018 compared to YTD 2017, respectively, primarily due to:

Higher yields on our newly acquired mortgage-related assets and other investments as a result of increases in interest rates;

Changes in our investment mix due to reductions in both our less liquid assets and the percentage of our other investments and cash portfolio relative to our total investments portfolio; and

Larger benefit from funding provided by non-interest bearing liabilities due to increases in both short-term interest rates and the percentage of non-interest bearing liabilities relative to our total liabilities.

Capital Markets segment net interest yield in the graph above is not affected by our hedge accounting programs. See Note 13 in our 2017 Annual Report for more information.

Management's Discussion and Analysis Our Business Segments | Capital Markets

Financial Results

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

			Change					Change		
(Dollars in millions)	3Q 2018	3Q 2017	\$	%		YTD 2018	YTD 2017	\$	%	
Net interest income	\$923	\$804	\$119	15	%	\$2,602	\$2,608	(\$6)—	%
Net impairment of available-for-sale securities recognized in earnings	7	50	(43	)(86	)	144	194	(50	)(26)
Derivative gains (losses)	427	(324	) 751	232		2,038	(757	) 2,795	369	
Gains (losses) on trading securities	(286	)(26	) (260	)(1,000)		(989	)(207	) (782	)(378)	
Other non-interest income	327	5,754	(5,427	)(94	)	1,423	6,916	(5,493	)(79)
Administrative expense	(89	)(73	) (16	)(22	)	(262	)(242	) (20	)(8)
Segment Earnings before income tax expense	1,309	6,185	(4,876	)(79	)	4,956	8,512	(3,556	)(42)
Income tax expense	(214	)(2,143	) 1,929	90		(957	)(2,921	) 1,964	67	
Segment Earnings, net of taxes	1,095	4,042	(2,947	)(73	)	3,999	5,591	(1,592	)(28)
Total other comprehensive income (loss), net of tax	(101	)(17	) (84	)(494	)	(847	)261	(1,108	)(425))
Total comprehensive income (loss)	\$994	\$4,025	(\$3,031	)(75	)%	\$3,152	\$5,852	(\$2,700	)(46)%

The portion of total comprehensive income (loss) driven by interest rate-related and market spread-related fair value changes, after-tax, is presented in the table below. These amounts affect various line items in the table above, including net interest income, derivative gains (losses), gains (losses) on trading securities, other non-interest income, income tax expense and total other comprehensive income (loss), net of tax.

		Change				Change			
(Dollars in billions)	3Q 2018	3Q 2017	\$	%	YTD 2018	YTD 2017	\$	%	
Interest rate-related	(\$0.1)	(\$0.1)	\$—	%	(\$0.1)	(\$0.2)	\$0.1	50 %	
Market spread-related	0.1	0.5	(0.4)	(80)	0.3	0.8	(0.5)	(63)	

Key Business Drivers:

3Q 2018 vs. 3Q 2017 and YTD 2018 vs. YTD 2017

Increased net interest income during the 2018 periods primarily due to:

Higher yields on our newly acquired mortgage-related assets and other investments as a result of increases in interest rates;

Changes in our investment mix due to reductions in both our less liquid assets and the percentage of our other investments and cash portfolio relative to our total investments portfolio; and

Larger benefit from funding provided by non-interest bearing liabilities due to increases in both short-term interest rates and the percentage of non-interest bearing liabilities relative to our total liabilities.

Relatively flat interest rate-related fair value losses during the 2018 periods. Long-term interest rates increased during the 2018 periods, while rates remained relatively flat during 3Q 2017 and decreased during YTD 2017, resulting in higher fair value losses for the vast majority of our

investments in securities (some of which are recorded in other comprehensive income), our receive-fixed interest rate swaps, and certain of our option-based derivatives offset by higher fair value gains for our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures. The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs. The remaining amount of interest rate-related fair value changes was primarily attributable to the reversal of previously recognized derivative gains and losses and the implied net cost on instruments such as swaptions, futures, and forward purchase and sale commitments from our hedging and interest-rate risk management activities. See Market Risk for additional information on the effect of market-related items on our comprehensive income.

1 Decreased spread related gains during the 2018 periods due to lower non-agency mortgage-related securities balances and less spread tightening.

1 Recognition of \$4.5 billion in proceeds received during the 2017 periods from the RBS settlement related to certain of our non-agency mortgage related securities.

1 Decreased amortization of debt securities of consolidated trusts during the 2018 periods driven by a decrease in prepayments as a result of higher interest rates.

RISK MANAGEMENT

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, operational risk, market risk and liquidity risk.

For more discussion of these and other risks facing our business and our risk management framework, see MD&A - Risk Management and Risk Factors in our 2017 Annual Report and Liquidity and Capital Resources in this report and in our 2017 Annual Report. See below for updates since our 2017 Annual Report.

Conservatorship Capital Framework

In May 2017, FHFA, as Conservator, issued guidance to us to evaluate and manage our financial risk and to make economic business decisions, while in conservatorship, utilizing a newly-developed risk-based Conservatorship Capital Framework (CCF), an economic capital system with detailed formulae provided by FHFA. The CCF also provides the foundation for the risk-based component of the proposed Enterprise Capital Rule published by FHFA in the Federal Register in July 2018.

The CCF is used to establish the modeled capital needed to evaluate business decisions and ensure the company makes such decisions prudently when pricing transactions and managing its businesses. This return-versus-risk framework focuses on the profits earned versus an estimated cost of equity capital needed to support the risk assumed to generate those profits. Management relies upon this framework in its decision-making.

The existing regulatory capital requirements have been suspended by FHFA during conservatorship. Consequently, we refer to the capital needed by the CCF for analysis of transactions and businesses as "modeled conservatorship capital" or simply "CCF capital."

Under the Purchase Agreement, we are not able to permanently retain total equity, as calculated under GAAP, in excess of the \$3.0 billion Capital Reserve Amount. As a result, we do not have capital sufficient to support our aggregate risk-taking activities. Instead, we rely upon the Purchase Agreement to maintain market confidence.

Return on Modeled Conservatorship Capital

The table below provides the return on CCF capital, calculated as (1) annualized comprehensive income for the period divided by (2) average CCF capital during the period. Each quarter, we consider whether certain "significant items" occurred that should be excluded from comprehensive income and our calculation of return on CCF capital. If we have identified significant items in any of the periods presented, we also include comprehensive income excluding significant items as well as an adjusted return on CCF capital based on comprehensive income excluding significant items, both non-GAAP measures. We believe that these non-GAAP financial measures are more useful to investors as they better reflect our on-going financial results.

Management's Discussion and Analysis Risk Management | Conservatorship Capital Framework

All modeled conservatorship capital figures presented below are based on the CCF as of September 30, 2018. The CCF has been and may be further revised by FHFA from time to time, and may be revised specifically in connection with FHFA's consideration and adoption of a final Enterprise Capital Rule, which could result in changes, possibly material, in our modeled conservatorship capital. For example, the Enterprise Capital Rule proposed by FHFA in 2Q 2018 includes capital for deferred tax assets, which is not included in the CCF currently, but which is scheduled to be included beginning in 2019.

The return on CCF capital shown in the table below is not based on our total equity and does not reflect actual returns on total equity. We do not believe that returns on total equity are meaningful because of the limitations on the amount of total equity that we are able to permanently retain under the Purchase Agreement.

(Dollars in billions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
GAAP comprehensive income	\$2.6	\$4.7	\$7.1	\$8.9
Significant items:				
Non-agency mortgage-related securities settlement and judgment ^{(1) (2)}	—	(4.5)	(0.3)	(4.5)
Tax effect related to settlement and judgment ^{(1) (2)}	—	1.6	0.1	1.6
Total significant items ⁽³⁾	—	(2.9)	(0.2)	(2.9)
Comprehensive income, excluding significant items ⁽³⁾	\$2.6	\$1.8	\$6.9	\$6.0
CCF capital (average during the period)	\$51.9	\$59.0	\$53.6	\$61.7
Return on CCF capital, based on GAAP comprehensive income	19.7%	31.5%	17.8%	19.2%
Adjusted return on CCF capital, based on comprehensive income excluding significant items ⁽³⁾	19.7%	11.6%	17.1%	12.8%

3Q 2017 and YTD 2017 GAAP comprehensive income included settlement proceeds of \$4,525 million (pre-tax) (1) from the RBS related to litigation involving certain of our non-agency mortgage-related securities. The tax effect related to this settlement was (\$1,584) million.

YTD 2018 GAAP comprehensive income included a benefit of \$334 million (pre-tax) from a final judgment (2) against Nomura Holding America, Inc. in litigation involving certain of our non-agency mortgage-related securities. The tax effect related to this judgment was (\$70) million.

(3) No significant items were identified for 3Q 2018. Numbers for 3Q 2018 included for comparison purposes only.

Our adjusted returns on CCF capital increased over the last several quarters due to our decreasing level of CCF capital needed, resulting from home price improvements, the efficient disposition of legacy assets and the increasing credit risk transfer activity in both our Single-family Guarantee and Multifamily segments.

Our three business segments have different capital requirements, returns and profitability. The return on CCF capital for our Single-family Guarantee segment, which has FHFA-prescribed guidance on guarantee fee levels, is generally lower than the company's overall return, while the returns in our Multifamily and Capital Markets segments are generally higher.

We find the returns calculated above, as well as the returns calculated on specific transactions and individual business lines, to be a reasonable measure of return-versus-risk to support our decision-making while we remain in conservatorship. These returns may not be indicative of the returns that would be generated if we were to exit conservatorship, especially as the terms and timing of any such exit are not currently known and will depend upon future actions by the U.S. government. Our belief, should we leave conservatorship, is that returns at that time would most likely be below the levels

calculated above, assuming the same portfolio of risk assets, as we expect that we would hold capital post-conservatorship above the minimum required regulatory capital. It is also likely that we would be required to pay fees for federal government support, thereby reducing our total comprehensive income.

Management's Discussion and Analysis Risk Management | Market Risk

Market Risk

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

Economic Market Risk

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 PMVS. Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities and is expressed in months relative to the market value of assets. PMVS is our estimate of the change in the market value of our financial assets and liabilities from an instantaneous shock to interest rates, assuming spreads are held constant and no rebalancing actions are undertaken. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-L) and the other to a non-parallel movement resulting from a 25 basis point change in slope of the LIBOR yield curve (PMVS-YC). While we believe that duration gap and PMVS are useful risk management tools, they should be understood as estimates rather than as precise measurements. The following tables provide our 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. The tables below also provide 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.

	September 30, 2018			December 31, 2017		
	PMVS-PMVS-L			PMVS-PMVS-L		
(In millions)	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve, (gains) losses on: ⁽¹⁾						
Assets	(\$535)	(\$5,659)	(\$11,162)	\$463	\$5,587	\$11,446
Liabilities	(156)	2,062	3,950	185	(2,377)	(4,968)
Derivatives	702	3,591	7,188	(646)	(3,200)	(6,477)
Total	\$11	(\$6)	(\$24)	\$2	\$10	\$1
PMVS	\$11	\$—	\$—	\$2	\$10	\$1

The categorization of the PMVS impact between assets, liabilities and derivatives on this table is based upon the economic characteristics of those assets and liabilities, not their accounting classification. For example, purchase and sale commitments of mortgage-related securities and debt securities of consolidated trusts held by the mortgage-related investments portfolio are both categorized as assets on this table.

Management's Discussion and Analysis Risk Management | Market Risk

(Duration gap in months, dollars in millions)	3Q 2018			3Q 2017		
	Duration	PMVS-Y	CPMVS-L	Duration	PMVS-Y	CPMVS-L
	Gap	25 bps	50 bps	Gap	25 bps	50 bps
Average	—	\$12	\$18	—	\$9	\$35
Minimum	(0.2)	—	—	(0.4)	—	—
Maximum	0.3	21	49	0.4	26	78
Standard deviation	0.1	5	15	0.2	7	17

(Duration gap in months, dollars in millions)	YTD 2018			YTD 2017		
	Duration	PMVS-Y	CPMVS-L	Duration	PMVS-Y	CPMVS-L
	Gap	25 bps	50 bps	Gap	25 bps	50 bps
Average	—	\$11	\$17	0.1	\$7	\$16
Minimum	(0.4)	—	—	(0.4)	—	—
Maximum	0.3	31	77	0.8	26	78
Standard deviation	0.1	6	17	0.2	6	20

Derivatives enable us to reduce our economic interest-rate risk exposure as we continue to align our derivative portfolio with the changing duration of our economically hedged assets and liabilities. 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.

(In millions)	PMVS-L (50 bps)		
	Before Derivatives	After Derivatives	Effect of Derivatives
September 30, 2018	\$3,576	\$—	(\$3,576)
December 31, 2017	3,210	10	(3,200)
GAAP Earnings Variability			

The GAAP accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates and spreads change. This variability of GAAP earnings, which may not reflect the economics of our business, increases the risk of our having a negative net worth and thus being required to draw from Treasury.

Interest-rate Volatility

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, our GAAP financial results are still subject to significant earnings variability from period to period. Based upon the composition of our financial assets and liabilities, including derivatives, at September 30, 2018, we generally recognize fair value losses in GAAP earnings when interest rates decline.

In an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business, we elect hedge accounting for certain single-family mortgage loans and certain debt instruments. See Note 9 for additional information on hedge accounting.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income (loss), net of tax, after considering any offsetting interest rate effects related to financial instruments measured at fair value and the effects of fair value hedge accounting.

Management's Discussion and Analysis Risk Management | Market Risk

(In billions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Interest-rate effect on derivative fair values	\$1.4	\$—	\$5.5	(\$0.6)
Estimate of offsetting interest-rate effect related to financial instruments measured at fair value ⁽¹⁾	(1.0)	—	(3.6)	—
Gains (losses) on mortgage loans and debt in fair value hedge relationships	(0.6)	—	(2.5)	0.4
Amortization of deferred hedge accounting gains and losses	0.1	—	0.2	—
Income tax (expense) benefit	—	—	0.1	0.1
Estimated net interest rate effect on comprehensive income (loss)	(\$0.1)	\$—	(\$0.3)	(\$0.1)

Includes the interest-rate effect on our trading securities, available-for-sale securities, mortgage loans held-for-sale and other assets and debt for which we elected the fair value option, which is reflected in other non-interest income (loss) and total other comprehensive income (loss) on our condensed consolidated statements of comprehensive income.

The effect from the change in interest rates on derivative fair values is mostly offset by the effect from the change in interest rates related to financial instruments measured at fair value and gains and losses on mortgage loans and debt in fair value hedging relationships. The remaining net interest-rate effect on comprehensive income is largely attributable to the reversal of previously recognized derivative gains and losses and the implied net cost on instruments such as swaptions, futures, and forward purchase and sale commitments from our hedging and interest-rate risk management activities. These remaining effects are recognized in GAAP earnings over time as a component of derivative gains and losses as the instruments approach maturity and are partially offset by the amortization of previously deferred hedge accounting gains and losses.

We evaluate the potential benefits of fair value hedge accounting by evaluating a range of interest rate scenarios and identifying which of those scenarios produces the most adverse GAAP earnings outcome. The interest rate scenarios evaluated include parallel shifts in the yield curve of plus and minus 100 basis points, non-parallel yield curve shifts in which long-term interest rates increase or decrease by 100 basis points and non-parallel yield curve shifts in which short-term and medium-term interest rates increase or decrease by 100 basis points.

At September 30, 2018 and September 30, 2017, the GAAP adverse scenario before and after fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points.

The results of this evaluation are shown in the table below.

GAAP Adverse Scenario (Before-Tax)				
(Dollars in billions)	Before Hedge Accounting	After Hedge Accounting	Change	
September 30, 2018	(\$3.3)	(\$0.5)	) 85	%
September 30, 2017	(2.8)	(1.2)	) 58	

Spread Volatility

We have limited ability to manage our spread risk exposure in a cost beneficial manner and therefore the volatility of market spreads may contribute to significant GAAP earnings variability. For financial assets measured at fair value, we generally recognize fair value losses when market spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when market spreads widen.

Management's Discussion and Analysis Risk Management | Market Risk

The table below shows the estimated effect of spreads on our comprehensive income (loss), after tax, by segment.

(In billions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Capital Markets	\$0.1	\$0.5	\$0.3	\$0.8
Multifamily	—	—	0.1	—
Single-family Guarantee ⁽¹⁾	—	—	—	(0.2)
Spread effect on comprehensive income (loss)	\$0.1	\$0.5	\$0.4	\$0.6

(1) Represents spread exposure on certain STACR debt securities for which we have elected the fair value option.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital

Our business activities require that we maintain adequate liquidity to fund our operations. We also must maintain adequate capital resources to avoid being placed into receivership by FHFA. For further discussion of our liquidity framework and profile, see MD&A - Liquidity and Capital Resources in our 2017 Annual Report.

Primary Sources of Liquidity, Funding and Capital

The following table lists the sources of our liquidity, funding and capital, the balances as of 3Q 2018 and a brief description of their importance to Freddie Mac.

Source	Balance ⁽¹⁾ (In billions)	Description
Liquidity		
Other Investments and Cash Portfolio - Liquidity and Contingency Operating Portfolio	\$61.6	The liquidity and contingency operating portfolio, included within our other investments and cash portfolio, is primarily used for short-term liquidity management.
Liquid Portion of the Mortgage-Related Investments Portfolio	\$124.5	The liquid portion of our mortgage-related investments portfolio can be pledged or sold for liquidity purposes. The amount of cash we may be able to successfully raise may be substantially less than the balance.
Other Debt	\$280.4	Other debt is used to fund our business activities, including Single-family guarantee activities not funded by debt securities of consolidated trusts. Debt securities of consolidated trusts are used primarily to fund our Single-family guarantee activities. This type of debt is principally repaid by the cash flows of the associated mortgage loans. As a result, our repayment obligation is limited to amounts paid pursuant to our guarantee of principal and interest and to purchase modified or seriously delinquent loans from the trusts.
Debt Securities of Consolidated Trusts	\$1,765.0	
Capital		
Net Worth	\$5.6	GAAP net worth represents capital available prior to our dividend requirement to Treasury under the Purchase Agreement.
Available Funding under Purchase Agreement	\$140.2	FHFA may request that available funding under the Purchase Agreement be drawn on our behalf from Treasury.

Represents carrying value for the liquidity and contingency operating portfolio, included within our other (1) investments and cash portfolio, and net worth. Represents UPB for the liquid portion of the mortgage-related investments portfolio and debt balances.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

Other Investments and Cash Portfolio

The investments in our other investments and cash portfolio are important to our cash flow, collateral management, asset and liability management, and our ability to provide liquidity and stability to the mortgage market. The table below summarizes the balances in our other investments and cash portfolio, which includes the liquidity and contingency operating portfolio.

(In billions)	September 30, 2018				December 31, 2017			
	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments and Cash Portfolio	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments and Cash Portfolio
Cash and cash equivalents ⁽¹⁾	\$6.3	\$0.7	\$—	\$7.0	\$9.3	\$0.5	\$—	\$9.8
Securities purchased under agreements to resell	32.7	13.0	2.8	48.5	38.9	16.8	0.2	55.9
Non-mortgage-related securities	22.6	—	2.9	25.5	22.2	—	0.6	22.8
Advances to lenders and other secured lending	—	—	1.8	1.8	—	—	1.3	1.3
Total	\$61.6	\$13.7	\$7.5	\$82.8	\$70.4	\$17.3	\$2.1	\$89.8

(1) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance and re-designation of cash collateral posted to us as part of the liquidity and contingency operating portfolio.

Our non-mortgage-related investments in the liquidity and contingency operating portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York. In 3Q 2018, we began to maintain interest bearing deposits at commercial banks.

The liquidity and contingency operating portfolio also includes collateral posted to us in the form of cash primarily by derivatives counterparties of \$2.5 billion and \$2.4 billion as of September 30, 2018 and December 31, 2017, respectively. We have invested this collateral in securities purchased under agreements to resell and non-mortgage-related securities as part of our liquidity and contingency operating portfolio, although the collateral may be subject to return to our counterparties based on the terms of our master netting and collateral agreements.

Mortgage-Related Investments Portfolio

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities. Our ability to pledge certain of these assets as collateral or sell them enhances our liquidity profile, although the amount of cash we may be able to successfully raise in the event of a liquidity crisis or significant market disruption may be substantially less than the amount of mortgage-related assets we hold. See Conservatorship and Related Matters for additional details on the liquidity of our mortgage-related investments portfolio.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

Other Debt Activities

We issue other debt to fund our operations. Competition for funding can vary with economic, financial market and regulatory environments. We issue other debt based on a variety of factors including market conditions and our liquidity requirements. We currently favor a mix of derivatives and shorter- and medium-term debt 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.

The tables below summarize the par value and the average rate of other debt securities we issued or paid off, including regularly scheduled principal payments, payments resulting from calls and payments for repurchases. We call, exchange or repurchase 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.

3Q 2018

(Dollars in millions)	Short-term	Average Rate ⁽¹⁾	Long-term	Average Rate ⁽¹⁾
Discount notes and Reference Bills:				
Beginning balance	\$34,771	1.83 %	\$—	— %
Issuances	102,862	1.89	—	—
Repurchases	—	—	—	—
Maturities	(96,907)	1.79	—	—
Ending Balance	40,726	2.06	—	—
Securities sold under agreements to repurchase:				
Beginning balance	11,719	1.87	—	—
Additions	42,120	1.96	—	—
Repayments	(44,113)	1.92	—	—
Ending Balance	9,726	2.03	—	—
Callable debt:				
Beginning balance	—	—	112,735	1.81
Issuances	2,000	2.28	8,400	3.25
Repurchases	—	—	—	—
Calls	—	—	(348)	2.77
Maturities	—	—	(11,855)	1.02
Ending Balance	2,000	2.28	108,932	2.00
Non-callable debt: ⁽²⁾				
Beginning balance	10,462	1.21	108,464	2.96
Issuances	10,140	2.03	23	2.77
Repurchases	—	—	—	—
Maturities	(4,402)	1.16	(5,709)	1.22
Ending Balance	16,200	1.74	102,778	3.09
Total other debt	\$68,652	1.98 %	\$211,710	2.53 %

Referenced footnote is included after the next table.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

(Dollars in millions)	YTD 2018			
	Short-term	Average Rate ⁽¹⁾	Long-term	Average Rate ⁽¹⁾
Discount notes and Reference Bills:				
Beginning balance	\$45,717	1.19 %	\$—	— %
Issuances	273,159	1.65	—	—
Repurchases	—	—	—	—
Maturities	(278,150)	1.03	—	—
Ending Balance	40,726	2.06	—	—
Securities sold under agreements to repurchase:				
Beginning balance	9,681	1.06	—	—
Additions	122,680	1.67	—	—
Repayments	(122,635)	1.59	—	—
Ending Balance	9,726	2.03	—	—
Callable debt:				
Beginning balance	—	—	113,822	1.58
Issuances	2,000	2.28	22,150	3.12
Repurchases	—	—	(722)	2.07
Calls	—	—	(3,030)	2.05
Maturities	—	—	(23,288)	1.05
Ending Balance	2,000	2.28	108,932	2.00
Non-callable debt: ⁽²⁾				
Beginning balance	17,792	1.03	129,094	2.52
Issuances	11,965	1.94	13,398	2.42
Repurchases	—	—	(1,300)	1.99
Maturities	(13,557)	1.01	(38,414)	1.46
Ending Balance	16,200	1.74	102,778	3.09
Total other debt	\$68,652	1.98 %	\$211,710	2.53 %

(1) Average rate is weighted based on par value.

Includes STACR and SCR debt notes and certain multifamily other debt. STACR and SCR debt notes are subject (2) to prepayment risk as their payments are based upon the performance of a reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty.

During the 2018 periods, our outstanding other debt balance continued to decline as we reduced our indebtedness along with the decline in our mortgage-related investments portfolio. As a result, our total issuances, excluding securities sold under agreements to repurchase, decreased.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

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 September 30, 2018⁽¹⁾

Earliest Redemption Date as of September 30, 2018⁽¹⁾

STACR and SCR debt notes are subject to prepayment risk as their payments are based upon the performance of a (1)reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty and are therefore included as a separate category in the graphs.

Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

Debt Securities of Consolidated Trusts

The largest component of debt on our condensed consolidated balance sheets is debt securities of consolidated trusts, which relates to securitization transactions that we consolidated for accounting purposes. We issue this type of debt by securitizing mortgage loans primarily to fund the majority of our single-family guarantee activities. When we consolidate securitization trusts, we recognize the following on our condensed consolidated balance sheets:

The assets held by the securitization trusts, the majority of which are mortgage loans. We recognized \$1,814.8 billion and \$1,774.3 billion of mortgage loans, which represented 87.9% and 86.6% of our total assets, as of 3Q 2018 and 4Q 2017, respectively.

The debt securities issued by the securitization trusts, the majority of which are PCs. PCs are pass-through securities, where the cash flows of the mortgage loans held by the securitization trust are passed through to the holders of the PCs. We recognized \$1,765.0 billion and \$1,721.0 billion of debt securities of consolidated trusts, which represented 86.4% and 84.6% of our total debt, as of 3Q 2018 and 4Q 2017, respectively.

Debt securities of consolidated trusts are principally repaid from the cash flows of the mortgage loans held by the securitization trusts that issued the debt securities. In circumstances when the cash flows of the mortgage loans are not sufficient to repay the debt, we make up the shortfall because we have guaranteed the payment of principal and interest on the debt. In certain circumstances, we have the right and/or obligation to purchase the loan from the trust prior to its contractual maturity.

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

(In millions)	3Q 2018	YTD 2018
Beginning balance	\$1,700,480	\$1,672,605
Issuances:		
New issuances to third parties	48,971	134,907
Additional issuances of securities	52,666	141,941
Total issuances	101,637	276,848
Extinguishments:		
Purchases of debt securities from third parties	(11,752)	(31,365)
Debt securities received in settlement of advances to lenders	(6,878)	(18,378)
Repayments of debt securities	(63,640)	(179,863)
Total extinguishments	(82,270)	(229,606)
Ending balance	1,719,847	1,719,847
Unamortized premiums and discounts	45,198	45,198
Debt securities of consolidated trusts held by third parties	\$1,765,045	\$1,765,045

Management's Discussion and Analysis Liquidity and Capital Resources | Capital

Capital

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Under the Purchase Agreement, Treasury made a commitment to provide us with equity funding, under certain conditions, to eliminate deficits in our net worth. As of September 30, 2018, our net worth was \$5.6 billion and the amount of available funding remaining under the Purchase Agreement was \$140.2 billion. See Note 2 for details of the support we receive from Treasury.

The table below presents activity related to our net worth during 3Q 2018 and YTD 2018.

(In millions)	3Q 2018	YTD 2018
Beginning balance	\$4,585	(\$312)
Comprehensive income (loss)	2,559	7,144
Capital draw from Treasury	—	312
Senior preferred stock dividends declared	(1,585)	(1,585)
Total equity / net worth	\$5,559	\$5,559
Aggregate draws under Purchase Agreement	\$71,648	\$71,648
Aggregate cash dividends paid to Treasury	113,978	113,978

Management's Discussion and Analysis Liquidity and Capital Resources | Cash Flows

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 YTD 2017 and YTD 2018.

Operating Cash Flows Commentary	Investing Cash Flows	Financing Cash Flows
------------------------------------	----------------------	----------------------

nCash provided by operating activities decreased \$1.9 billion primarily due to:

lAn increase in net sales of held-for-sale loans, driven by an increase in the volume of our multifamily securitizations.

nCash provided by investing activities decreased \$34.1 billion primarily due to:

lA decrease in net proceeds received from sales and maturities of investment securities due to our continued reduction of the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA; and

lAn increase in single-family loan purchases for cash coupled with reduced repayments of single-family loans driven by higher mortgage interest rates.

nCash used in financing activities decreased \$39.5 billion primarily due to:

lAn increase in proceeds from issuance of debt securities of consolidated trusts held by third parties due to an increase in the volume of single-family PC issuances for cash;

lA decrease in payments of cash dividends on senior preferred stock; and

lReduced repayments of debt securities of consolidated trusts held by third parties due to lower single-family liquidation rates.

Management's
Discussion
and
Analysis

Conservatorship and Related Matters

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 limit imposed by the Purchase Agreement and FHFA regulation. The cap for this portfolio will decrease to \$250 billion at December 31, 2018.

(Dollars in millions)	September 30, 2018				December 31, 2017			
	Liquid	Securitization Pipeline	Address Liquid	Total	Liquid	Securitization Pipeline	Address Liquid	Total
Capital Markets segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	\$—	\$11,720	\$—	\$11,720	\$—	\$9,999	\$—	\$9,999
Reperforming loans	—	—	43,861	43,861	—	—	46,666	46,666
Total single-family unsecuritized loans	—	11,720	43,861	55,581	—	9,999	46,666	56,665
Freddie Mac mortgage-related securities	113,179	—	3,272	116,451	123,905	—	3,817	127,722
Non-agency mortgage-related securities	701	—	2,600	3,301	749	—	5,152	5,901
Other Non-Freddie Mac agency mortgage-related securities	4,384	—	—	4,384	5,211	—	—	5,211
Total Capital Markets segment - Mortgage investments portfolio	118,264	11,720	49,733	179,717	129,865	9,999	55,635	195,499
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	9,254	9,254	—	—	12,267	12,267
Multifamily segment:								
Unsecuritized loans	—	17,820	13,849	31,669	—	19,653	18,585	38,238
Mortgage-related securities	6,281	—	883	7,164	6,181	—	1,270	7,451
Total Multifamily segment	6,281	17,820	14,732	38,833	6,181	19,653	19,855	45,689
Total mortgage-related investments portfolio	\$124,545	\$29,540	\$73,719	\$227,804	\$136,046	\$29,652	\$87,757	\$253,455

Percentage of total mortgage-related investments portfolio	55	% 13	% 32	% 100	% 54	% 12	% 34	% 100	%
Mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017				\$250,000				\$288,408	
90% of mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017 ⁽¹⁾				\$225,000				\$259,567	

(1) Represents the amount to which we manage under our Retained Portfolio Plan, subject to certain exceptions. The decline in our mortgage-related investments portfolio during YTD 2018 was primarily due to repayments.

Management's
Discussion
and
Analysis
Conservatorship and Related Matters

While we continued to purchase new single-family seriously delinquent loans and multifamily unsecuritized loans, which are classified as held-for-investment, our active disposition of less liquid assets included the following:

- Sales of \$8.7 billion in UPB of less liquid single-family assets, including \$6.2 billion in UPB of single-family nonperforming loans, \$2.2 billion in UPB of single-family non-agency mortgage-related securities, and \$0.3 billion in UPB of seriously delinquent unsecuritized single-family loans;
- Securitizations of \$0.6 billion in UPB of less liquid multifamily loans; and
- Transfers of \$0.7 billion in UPB of less liquid multifamily loans to the securitization pipeline.

Management's
Discussion
and
Regulation and Supervision
Analysis

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.

Federal Housing Finance Agency
Affordable Housing Fund 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 pay this amount to certain housing funds. During 3Q 2018 and YTD 2018, we completed \$99 billion and \$278 billion, respectively, of new business purchases subject to this requirement and accrued \$42 million and \$117 million, respectively, of related expense. We expect to pay the YTD 2018 expense amount (and any additional amounts accrued based on our new business purchases during the remainder of 2018) in February 2019. We are prohibited from passing through these costs to the originators of the loans that we purchase.

Legislative and Regulatory Developments
Affordable Housing Goals Results for 2017

In October 2018, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2017, and preliminarily determined that we achieved three of our five single-family affordable housing goals and all three of our multifamily goals. Our performance on the goals, as preliminarily determined, is set forth in the table below. We may achieve a single-family housing goal by meeting or exceeding either:

nthe FHFA benchmark for that goal (Goals); or
nthe actual share of the market that meets the criteria for that goal (Market Levels).

	Goals for 2017	Market Levels for 2017	Preliminary Results for 2017
Single-family purchase money goals (benchmark levels)			
Low-income goal	24	% 24.3 %	23.2 %
Very low-income goal	6	% 5.9 %	5.7 %
Low-income areas goal	18	% 21.5 %	20.9 %
Low-income areas subgoal	14	% 17.1 %	16.4 %
Single-family refinance (benchmark level)			
Low-income goal	21	% 25.4 %	24.8 %
Multifamily (benchmark levels in units)			
Low-income goal	300,000	N/A	408,096
Very low-income subgoal	60,000	N/A	92,274
Small property low-income subgoal	10,000	N/A	39,473

Management's
Discussion
and
Regulation and Supervision
Analysis

Final Rule on Corporate Governance

On October 19, 2018, FHFA published in the Federal Register a final rule on the responsibilities of boards of directors, corporate practices, and corporate governance. The final rule amends the existing regulation pertaining to Federal Home Loan Bank strategic business plans so that it applies as well to Freddie Mac and Fannie Mae, with certain changes. The final rule requires the boards of directors for Freddie Mac and Fannie Mae to have in effect at all times a strategic business plan, review the plan at least annually, re-adopt the plan at least once every three years, and establish reporting requirements for and monitor implementation of the plan. The final rule also adds a new provision requiring the strategic business plan to identify current and emerging risks.

Proposed Rule on Uniform Mortgage-Backed Securities

On September 17, 2018, FHFA published in the Federal Register a proposed rule on the new Uniform Mortgage-Backed Security (UMBS). The proposed rule is intended to improve the liquidity of Freddie Mac and Fannie Mae (the Enterprises) "To-Be-Announced" (TBA)-eligible mortgage-backed securities (MBS) by requiring the Enterprises to maintain policies that promote aligned investor cash flows both on current TBA-eligible MBS, and, upon implementation, on the UMBS, a common, fungible MBS that will be eligible for trading in the TBA market for fixed-rate mortgage loans backed by 1-4 unit (single-family) properties. Implementation of requirements established by a final rule could affect our business practices in the future.

Final Rule on Indemnification

On October 4, 2018, FHFA published in the Federal Register a final rule on indemnification payments. The final rule establishes standards for identifying whether certain indemnification payments by Freddie Mac, Fannie Mae, or any of the Federal Home Loan Banks are prohibited or permissible. The final rule does not apply to any regulated entity operating in conservatorship.

Updated Capital Requirements for Mortgage Insurers

On September 27, 2018, Freddie Mac and Fannie Mae published revised Private Mortgage Insurer Eligibility Requirements (PMIERs) for private mortgage insurance companies that insure mortgage loans either owned or guaranteed by the Enterprises. The revised eligibility requirements, which reflect changes to the financial and operational requirements for mortgage insurance counterparties, become effective on March 31, 2019.

Management's Discussion and Analysis Off-Balance Sheet Arrangements

OFF-BALANCE SHEET ARRANGEMENTS

We enter into 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. For a description of our off-balance sheet arrangements, see MD&A - Off-Balance Sheet Arrangements in our 2017 Annual Report. See Note 3 and Note 5 for more information on our off-balance sheet securitization and guarantee activities.

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 \$241.6 billion and \$215.7 billion at September 30, 2018 and December 31, 2017, respectively.

Freddie Mac Form 10-Q 77

Management's Discussion and Analysis Forward-Looking
Statements

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 Capital Markets 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, the costs and benefits of our credit risk transfer transactions 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 "could," "may," "will," "believe," "expect," "anticipate," "forecast" and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the Risk Factors section of our 2017 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 requirement on the senior preferred stock;

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 the balance sheet normalization program announced in October 2017 to reduce the Federal Reserve's holdings of mortgage-related securities;

Changes in tax laws, including those made by the Tax Cuts and Jobs Act enacted in December 2017;

Changes in accounting policies, practices or guidance (e.g., FASB's accounting standards update related to the measurement of credit losses of financial instruments);

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 vs. purchase and fixed-rate vs. ARM);

The success of our efforts to mitigate our losses on our legacy and relief refinance single-family loan portfolio;

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

Our ability to maintain adequate liquidity to fund our operations;

Our ability to maintain the security and resiliency of our operational systems and infrastructure (e.g.,

Management's Discussion and Analysis Forward-Looking
Statements

against cyberattacks);

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

n The adequacy of our risk management framework, including the adequacy of the CCF and our internal capital methodologies for measuring risk;

n Our ability to manage mortgage credit risk, including the effect of changes in underwriting and servicing practices;

n Our ability to limit or manage our economic exposure and GAAP earnings exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;

n Our operational ability to issue new securities, make timely and correct payments on securities and provide initial and ongoing disclosures;

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

n Changes in investor demand for our debt or mortgage-related securities;

n Changes in the practices of loan originators, servicers, investors and other participants in the secondary mortgage market;

n The occurrence of a major natural or other disaster in areas in which our offices or significant portions of our total mortgage portfolio are located; and

n Other factors and assumptions described in this Form 10-Q and our 2017 Annual Report, including in the MD&A section.

Forward-looking statements are made only as of the date of this Form 10-Q, 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

Freddie Mac Form 10-Q 80

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Condensed Consolidated Statements of Comprehensive Income

FREDDIE MAC

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In millions, except share-related amounts)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Interest income				
Mortgage loans	\$16,787	\$15,867	\$49,082	\$47,680
Investments in securities	755	821	2,295	2,637
Other	261	185	703	436
Total interest income	17,803	16,873	52,080	50,753
Interest expense	(14,546)	(13,384)	(42,802)	(40,090)
Net interest income	3,257	3,489	9,278	10,663
Benefit (provision) for credit losses	380	(716)	377	(178)
Net interest income after benefit (provision) for credit losses	3,637	2,773	9,655	10,485
Non-interest income (loss)				
Gains (losses) on extinguishment of debt	146	27	403	295
Derivative gains (losses)	728	(678)	2,974	(2,076)
Net impairment of available-for-sale securities recognized in earnings	(2)	(1)	(3)	(17)
Other gains (losses) on investment securities recognized in earnings	(441)	723	(1,021)	840
Other income (loss)	394	5,403	1,526	6,512
Non-interest income (loss)	825	5,474	3,879	5,554
Non-interest expense				
Salaries and employee benefits	(301)	(272)	(890)	(813)
Professional services	(120)	(110)	(335)	(340)
Other administrative expense	(148)	(142)	(422)	(395)
Total administrative expense	(569)	(524)	(1,647)	(1,548)
Real estate owned operations expense	(38)	(35)	(87)	(128)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(375)	(339)	(1,100)	(990)
Other expense	(218)	(159)	(619)	(361)
Non-interest expense	(1,200)	(1,057)	(3,453)	(3,027)
Income (loss) before income tax (expense) benefit	3,262	7,190	10,081	13,012
Income tax (expense) benefit	(556)	(2,519)	(1,946)	(4,466)
Net income (loss)	2,706	4,671	8,135	8,546
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	(169)	(47)	(1,065)	246
Changes in unrealized gains (losses) related to cash flow hedge relationships	25	26	87	81
Changes in defined benefit plans	(3)	—	(13)	(3)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(147)	(21)	(991)	324
Comprehensive income (loss)	\$2,559	\$4,650	\$7,144	\$8,870
Net income (loss)	\$2,706	\$4,671	\$8,135	\$8,546
Undistributed net worth sweep and senior preferred stock dividends	(2,559)	(4,650)	(4,144)	(8,870)
Net income (loss) attributable to common stockholders	\$147	\$21	\$3,991	(\$324)
Net income (loss) per common share — basic and diluted	\$0.05	\$0.01	\$1.23	(\$0.10)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,234	3,234	3,234

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

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2018	December 31, 2017
(In millions, except share-related amounts)		
Assets		
Cash and cash equivalents (Notes 1, 3 and 14) (includes \$694 and \$2,963 of restricted cash and cash equivalents)	\$7,038	\$9,811
Securities purchased under agreements to resell (Notes 3, 10)	48,540	55,903
Investments in securities, at fair value (Note 7)	75,930	84,318
Mortgage loans held-for-sale (Notes 3, 4) (includes \$18,222 and \$20,054 at fair value)	36,924	34,763
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of \$6,946 and \$8,966)	1,865,504	1,836,454
Accrued interest receivable (Note 3)	6,600	6,355
Derivative assets, net (Notes 9, 10)	469	375
Deferred tax assets, net (Note 12)	7,876	8,107
Other assets (Notes 3, 18) (includes \$3,707 and \$3,353 at fair value)	14,576	13,690
Total assets	\$2,063,457	\$2,049,776
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	\$6,418	\$6,221
Debt, net (Notes 3, 8) (includes \$5,329 and \$5,799 at fair value)	2,041,990	2,034,630
Derivative liabilities, net (Notes 9, 10)	295	269
Other liabilities (Notes 3, 18)	9,195	8,968
Total liabilities	2,057,898	2,050,088
Commitments and contingencies (Notes 5, 9 and 16)		
Equity (Note 11)		
Senior preferred stock (redemption value of \$75,648 and \$75,336)	72,648	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 650,058,775 shares and 650,054,731 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(76,800)	(83,261)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes \$298 and \$593, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	(260)	662
Cash flow hedge relationships	(342)	(356)
Defined benefit plans	89	83
Total AOCI, net of taxes	(513)	389
Treasury stock, at cost, 75,805,111 shares and 75,809,155 shares	(3,885)	(3,885)
Total equity (See Note 11 for information on our dividend requirement to Treasury)	5,559	(312)
Total liabilities and equity	\$2,063,457	\$2,049,776

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

	September 30, 2018	December 31, 2017
(In millions)		
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Mortgage loans held-for-investment	\$1,814,776	\$1,774,286
All other assets	21,438	25,753
Total assets of consolidated VIEs	\$1,836,214	\$1,800,039

Liabilities: (Note 3)

Debt, net	\$1,765,045	\$1,720,996
All other liabilities	5,214	5,030
Total liabilities of consolidated VIEs	\$1,770,259	\$1,726,026

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

Freddie Mac Form 10-Q 82

Financial Statements Condensed Consolidated Statements of Cash Flows

FREDDIE MAC

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)	YTD 2018	YTD 2017
Net cash provided by operating activities	\$2,895	\$4,757
Cash flows from investing activities		
Purchases of trading securities	(101,700)	(119,548)
Proceeds from sales of trading securities	94,934	115,727
Proceeds from maturities and repayments of trading securities	5,276	6,775
Purchases of available-for-sale securities	(14,308)	(6,361)
Proceeds from sales of available-for-sale securities	16,976	14,695
Proceeds from maturities and repayments of available-for-sale securities	4,740	9,541
Purchases of held-for-investment mortgage loans	(113,083)	(92,311)
Proceeds from sales of mortgage loans held-for-investment	7,121	4,641
Repayments of mortgage loans held-for-investment	190,264	206,705
Advances to lenders and other secured lending arrangements	(19,407)	(25,383)
Net proceeds from dispositions of real estate owned and other recoveries	1,054	1,457
Net (increase) decrease in securities purchased under agreements to resell	7,363	4,346
Derivative premiums and terminations, swap collateral, and exchange settlement payments, net	5,418	(1,646)
Changes in other assets	(321)	(248)
Net cash provided by investing activities	84,327	118,390
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	158,825	135,697
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(211,729)	(221,844)
Proceeds from issuance of other debt	444,809	461,222
Repayments of other debt	(480,625)	(495,877)
Increase in liquidation preference of senior preferred stock	312	—
Payment of cash dividends on senior preferred stock	(1,585)	(8,695)
Changes in other liabilities	(2)	(3)
Net cash used in financing activities	(89,995)	(129,500)
Net (decrease) increase in cash and cash equivalents (includes restricted cash and cash equivalents)	(2,773)	(6,353)
Cash and cash equivalents (includes restricted cash and cash equivalents) at beginning of year	9,811	22,220
Cash and cash equivalents (includes restricted cash and cash equivalents) at end of period	\$7,038	\$15,867
Supplemental cash flow information		
Cash paid for:		
Debt interest	\$48,915	\$47,847
Income taxes	2,125	887
Non-cash investing and financing activities (Note 4 and 7)		

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

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

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, 2017, or 2017 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 2017 Annual Report. Throughout this Form 10-Q, we refer to the three months ended September 30, 2018, the three months ended June 30, 2018, the three months ended March 31, 2018, the three months ended December 31, 2017, and the three months ended September 30, 2017 as "3Q 2018," "2Q 2018," "1Q 2018," "4Q 2017" and "3Q 2017," respectively. We refer to the nine months ended September 30, 2018 and the nine months ended September 30, 2017 as "YTD 2018" and "YTD 2017," respectively.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2017 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 as authorized by FHFA through our Board of Directors and management. Certain amounts in prior periods' condensed consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, our unaudited condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary for a fair statement of our results.

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.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

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

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14, Topic 606: Deferral of the Effective Date	The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-08, Topic 606: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	The amendments in this Update do not change the core principle of the guidance in Topic 606. The amendments clarify the implementation guidance on principal versus agent considerations.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on

ASU 2016-10, Topic 606: Identifying Performance Obligations and Licensing	The amendments in this Update do not change the core principle of the guidance in Topic 606, but they clarify two issues: i) identifying performance obligations; and ii) licensing. These clarifications are intended to reduce diversity in practice and to reduce the cost and complexity of Topic 606 at transition and on an ongoing basis.	January 1, 2018	our disclosures. The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-12, Topic 606: Narrow-Scope Improvements and Practical Expedients	The amendments in this Update do not change the core principle of the guidance in Topic 606, but affect aspects of the guidance and technical corrections.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	The main objective of this Update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	Upon adoption, the portion of the cash payment attributable to the accreted interest related to zero-coupon debt is presented in the operating activities section, a classification change from the financing activities section where this item was previously presented. As a result, we reclassified approximately \$1.1 billion of cash payments from financing activities to operating activities on our condensed consolidated statements of cash flows for YTD 2017.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	The amendments in this Update address the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Specifically, this amendment dictates that the statement of cash flows should explain the change in the period of the total of cash, cash equivalents and restricted cash balances.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements; however, we modified the presentation of restricted cash and cash equivalent balances on our condensed consolidated balance sheets. The presentation of our condensed consolidated statements of cash flows has also been revised to reflect the change of total cash and cash equivalents and restricted cash and cash equivalents balances.
ASU 2016-20, Technical Corrections and Improvements to Topic 606	The amendments in this Update are of a similar nature to the items typically addressed in the Technical Corrections and Improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to Update 2014-09.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from	The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from	January 1, 2018	Upon adoption, we reclassified approximately \$89 million from accumulated other comprehensive income to retained earnings on our condensed consolidated financial

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Accumulated Other Comprehensive Income	the Tax Cuts and Jobs Act.	statements.
ASU 2018-03, Technical Corrections and		
Improvements to Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities	The amendments clarify certain aspects of the guidance issued in Update 2016-01 and address six specific issues.	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.

Freddie Mac Form 10-Q 86

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

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

Standard	Description	Date of Planned Adoption	Effect on 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. We are developing our models to estimate lifetime expected credit losses on our financial instruments measured at amortized cost using discounted cash flow methodology.
ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	January 1, 2020	The amendment will be applied through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. While we are not able to reasonably estimate the effect that the adoption of this amendment will have on our consolidated financial statements, it may increase (perhaps substantially) our allowance for credit losses in the period of adoption.
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurements, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. Certain disclosure requirements were either removed, modified or added.	January 1, 2020	We are evaluating the effect that the adoption of this amendment will have on the notes to our consolidated financial statements.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service	The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use	January 1, 2020	We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements.

Contract	software (and hosting arrangements that include an internal-use software license).	
ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	The amendments in this Update permit the OIS rate based on SOFR, as an eligible U.S. benchmark interest rate for January 1, 2019 purposes of applying hedge accounting under Topic 815.	We are evaluating the effect that the adoption of this amendment will have 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 provided for the Board of Directors to perform certain functions and to oversee management, and the board delegated to management authority to conduct business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and perform such functions as provided by, the Conservator.

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, 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 \$250 billion at December 31, 2018 and was \$227.8 billion at September 30, 2018. 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 cap established by the Purchase Agreement (subject to certain exceptions). 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:

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

At June 30, 2018, our assets exceeded our liabilities under GAAP; therefore, FHFA, as Conservator, 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 3Q 2018. The amount of available funding remaining under the Purchase Agreement is \$140.2 billion and will be reduced by any future draws.

See Note 8 and Note 11 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. 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 YTD 2018, we contributed \$109 million of capital to CSS, and we have contributed \$438 million since the fourth quarter of 2014.

NOTE 3

Securitization Activities and Consolidation

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. See Note 5 for additional information on our guarantee activities.

Consolidated VIEs

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

(In millions)	September 30, 2018	December 31, 2017
Consolidated Balance Sheet Line Item		
Assets:		
Cash and cash equivalents (includes \$637 and \$518 of restricted cash and cash equivalents)	\$638	\$518
Securities purchased under agreements to resell	13,000	16,750
Mortgage loans held-for-investment	1,814,776	1,774,286
Accrued interest receivable	5,777	5,747
Other assets	2,023	2,738
Total assets of consolidated VIEs	\$1,836,214	\$1,800,039
Liabilities:		
Accrued interest payable	\$5,214	\$5,028
Debt, net	1,765,045	1,720,996
Other liabilities	—	2
Total liabilities of consolidated VIEs	\$1,770,259	\$1,726,026

Non-Consolidated VIEs

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 condensed consolidated balance sheets related to our variable interests in non-consolidated 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. We do not believe the maximum exposure to loss disclosed in the table below is representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements. See Note 6 for additional information on credit enhancement arrangements.

(In millions)	September 30, 2018	December 31, 2017
Assets and Liabilities		
Recorded on our		
Condensed Consolidated		
Balance Sheets ⁽¹⁾		
Assets:		
Investments in securities,		
at fair value	\$43,736	\$51,494
Accrued interest		
receivable	221	233
Derivative assets, net	21	7
Other assets	2,862	2,591
Liabilities:		
Derivative liabilities, net	114	—
Other liabilities	2,785	2,489
Maximum Exposure to		
Loss ⁽²⁾⁽³⁾	227,567	200,196
Total Assets of		
Non-Consolidated	266,824	232,762
VIEs ⁽³⁾		

(1) Includes our variable interests in REMICs and Stripped Giant PCs, K Certificates, SB Certificates, senior subordinate securitization structures and other securitization products that we do not consolidate.

Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs, the UPB (2) of unguaranteed securities that we acquired from these securitization transactions and the UPB of guarantor advances made to the holders of the guaranteed securities.

Our maximum exposure to loss and total assets of non-consolidated VIEs exclude our investments in and obligations to REMICs and Stripped Giant PCs, because we already consolidate the underlying collateral of these trusts on our condensed consolidated balance sheets. In addition, our maximum exposure to loss excludes certain (3) securitization activity and other mortgage-related guarantees measured at fair value where our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

We also obtain interests in various other VIEs created by third parties through the normal course of business. To the extent that we were not involved in the design and creation of these VIEs, they are excluded from the table above. Our interests in these VIEs are generally passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

NOTE 4

Mortgage Loans and Allowance for Credit Losses

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

(In millions)	September 30, 2018			December 31, 2017		
	Held by Freddie Mac	Held by Consolidated Trusts	Total	Held by Freddie Mac	Held by Consolidated Trusts	Total
Held-for-sale:						
Single-family	\$22,112	\$—	\$22,112	\$17,039	\$—	\$17,039
Multifamily	18,566	—	18,566	20,537	—	20,537
Total UPB	40,678	—	40,678	37,576	—	37,576
Cost basis and fair value adjustments, net	(3,754)	—	(3,754)	(2,813)	—	(2,813)
Total held-for-sale loans, net	36,924	—	36,924	34,763	—	34,763
Held-for-investment:						
Single-family	42,722	1,787,797	1,830,519	51,893	1,742,736	1,794,629
Multifamily	13,105	3,708	16,813	17,702	3,747	21,449
Total UPB	55,827	1,791,505	1,847,332	69,595	1,746,483	1,816,078
Cost basis adjustments	(1,489)	26,607	25,118	(2,148)	31,490	29,342
Allowance for loan losses	(3,610)	(3,336)	(6,946)	(5,279)	(3,687)	(8,966)
Total held-for-investment loans, net	50,728	1,814,776	1,865,504	62,168	1,774,286	1,836,454
Total loans, net	\$87,652	\$1,814,776	\$1,902,428	\$96,931	\$1,774,286	\$1,871,217

The table below provides details of the UPB of loans we purchased, reclassified from held-for-investment to held-for-sale and sold.

(In billions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Single-family:				
Purchases				
Held-for-investment loans	\$81.6	\$86.8	\$231.5	\$245.7
Reclassified from held-for-investment to held-for-sale ⁽¹⁾	13.3	7.2	17.6	20.0
Sale of held-for-sale loans ⁽²⁾	2.3	2.7	6.5	4.3
Multifamily:				
Purchases				
Held-for-investment loans	0.9	1.1	2.6	3.0
Held-for-sale loans	16.3	16.6	42.5	40.6
Reclassified from held-for-investment to held-for-sale ⁽¹⁾	0.2	0.2	0.7	0.9
Sale of held-for-sale loans ⁽³⁾	14.4	16.0	44.8	38.7

(1) We reclassify loans from held-for-investment to held-for-sale when we no longer have the intent or ability to hold for the foreseeable future.

(2) We sell seasoned single-family loans as part of our strategy to mitigate losses and reduce our holdings of less liquid assets.

(3) Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates and SB Certificates. See Note 3 for more information on our K Certificates and SB Certificates.

Credit Quality

Single-Family

The current LTV ratio is one key factor we consider when estimating our allowance for credit losses for single-family loans. As current LTV ratios increase, the borrower's equity in the home decreases, which may negatively affect the borrower's ability to refinance 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 September 30, 2018 and December 31, 2017, based on data collected by us at loan delivery, approximately 8% and 9%, 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 14.

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.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	September 30, 2018				December 31, 2017			
	Current LTV Ratio		> 100 ⁽¹⁾	Total	Current LTV Ratio		> 100 ⁽¹⁾	Total
	≤ 80	> 80 to 100			≤ 80	> 80 to 100		
20 and 30-year or more, amortizing fixed-rate	\$1,303,619	\$215,739	\$8,477	\$1,527,835	\$1,240,224	\$214,177	\$13,303	\$1,467,704
15-year amortizing fixed-rate	256,318	5,191	209	261,718	270,266	7,351	381	277,998
Adjustable-rate	43,504	2,159	10	45,673	48,596	2,963	28	51,587
Alt-A, interest-only, and option ARM	17,350	2,351	729	20,430	21,013	4,256	1,429	26,698
Total single-family loans	\$1,620,791	\$225,440	\$9,425	\$1,855,656	\$1,580,099	\$228,747	\$15,141	\$1,823,987

(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 7.15% and 8.43% as of September 30, 2018 and December 31, 2017, respectively.

For reporting purposes:

n 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

n 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 or adjustable interest-rate provisions.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

Multifamily

The table below 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)	September 30, 2018	December 31, 2017
Credit risk profile by internally assigned grade: ⁽¹⁾		
Pass	\$16,343	\$20,963
Special mention	283	301
Substandard	168	169
Doubtful	—	—
Total	\$16,794	\$21,433

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 administrative issues that may affect future repayment prospects (1) but does not have current credit weaknesses; "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 tables below present the recorded investment of our single-family and multifamily loans, held-for-investment, by payment status.

(In millions)	Current	September 30, 2018			Total	Non-accrual
		One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure ⁽¹⁾		
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$1,501,012	\$16,205	\$3,586	\$7,032	\$1,527,835	\$7,030
15-year amortizing fixed-rate	260,127	1,162	158	271	261,718	271
Adjustable-rate	45,153	346	59	115	45,673	115
Alt-A, interest-only, and option ARM	18,224	933	335	938	20,430	937
Total single-family	1,824,516	18,646	4,138	8,356	1,855,656	8,353
Total multifamily	16,794	—	—	—	16,794	27
Total single-family and multifamily	\$1,841,310	\$18,646	\$4,138	\$8,356	\$1,872,450	\$8,380

(In millions)	Current	December 31, 2017			Total	Non-accrual
		One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure ⁽¹⁾		
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$1,431,342	\$18,297	\$5,660	\$12,405	\$1,467,704	\$12,401
15-year amortizing fixed-rate	275,864	1,288	290	556	277,998	556
Adjustable-rate	50,915	383	84	205	51,587	205
Alt-A, interest-only, and option ARM	23,235	1,297	509	1,657	26,698	1,656
Total single-family	1,781,356	21,265	6,543	14,823	1,823,987	14,818
Total multifamily	21,414	—	—	19	21,433	64

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total single-family and multifamily	\$1,802,770	\$21,265	\$6,543	\$14,842	\$1,845,420	\$14,882
-------------------------------------	-------------	----------	---------	----------	-------------	----------

(1) Includes \$2.9 billion and \$4.1 billion of loans that were in the process of foreclosure as of September 30, 2018 and December 31, 2017, respectively.

Freddie Mac Form 10-Q 95

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

(Dollars in millions)	September		December	
	30, 2018		31, 2017	
Single-family:				
Non-credit-enhanced portfolio				
Serious delinquency rate	0.88	%	1.16	%
Total number of seriously delinquent loans	55,527		81,668	
Credit-enhanced portfolio: ⁽¹⁾				
Primary mortgage insurance:				
Serious delinquency rate	0.89	%	1.43	%
Total number of seriously delinquent loans	15,462		23,275	
Other credit protection: ⁽²⁾				
Serious delinquency rate	0.30	%	0.53	%
Total number of seriously delinquent loans	11,639		16,259	
Total single-family:				
Serious delinquency rate	0.73	%	1.08	%
Total number of seriously delinquent loans	79,486		116,662	
Multifamily: ⁽³⁾				
Non-credit-enhanced portfolio:				
Delinquency rate	—	%	0.06	%
UPB of delinquent loans	\$—		\$24	
Credit-enhanced portfolio:				
Delinquency rate	0.01	%	0.01	%
UPB of delinquent loans	\$18		\$16	
Total multifamily:				
Delinquency rate	0.01	%	0.02	%
UPB of delinquent loans	\$18		\$40	

(1) The credit-enhanced categories are not mutually exclusive, as a single loan may be covered by both primary mortgage insurance and other credit protection.

(2) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See Note 6 for additional information on our credit enhancements.

(3) 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.

Allowance for Credit Losses

The allowance for credit losses represents estimates of probable incurred credit losses which we recognize by recording a charge to the provision for credit losses in our condensed consolidated statements of comprehensive income. The allowance for credit losses includes:

n Our allowance for loan losses, which pertains to all single-family and multifamily loans classified as held-for-investment on our condensed consolidated balance sheets; and

n Our reserve for guarantee losses, which pertains to single-family and multifamily loans underlying our K Certificates, SB Certificates, senior subordinate securitization structures, other securitization products and other mortgage-related guarantees.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

The tables below summarize changes in our allowance for credit losses.

(In millions)	3Q 2018				3Q 2017			
	Allowance for Loan Losses	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Allowance for Loan Losses	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses
Single-family:				Total				Total
Beginning balance	\$4,887	\$3,497		\$49	\$8,433	\$7,541	\$2,755	\$55
Provision (benefit) for credit losses	(522)	(143)		1	(378)	(330)	(1,023)	1
Charge-offs	(1,262)	(13)		(2)	(1,277)	(1,126)	(12)	(2)
Recoveries	117	2		—	119	143	2	—
Transfers, net ⁽¹⁾	306	(306)		—	136	(136)		—
Other ⁽²⁾	76	11		—	87	56	—	—
Single-family ending balance	3,602	3,334		48	6,984	6,420	3,632	54
Multifamily ending balance	8	2		8	18	32	1	8
Total ending balance	\$3,610	\$3,336		\$56	\$7,002	\$6,452	\$3,633	\$62

(In millions)	YTD 2018				YTD 2017			
	Allowance for Loan Losses	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Allowance for Loan Losses	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses
Single-family:				Total				Total
Beginning balance	\$5,251	\$3,680		\$48	\$8,979	\$10,442	\$2,969	\$54
Provision (benefit) for credit losses	(629)	(266)		6	(357)	(1,058)	(1,223)	3
Charge-offs	(2,198)	(44)		(6)	(2,248)	(3,942)	(88)	(3)
Recoveries	336	5		—	341	322	5	—
Transfers, net ⁽¹⁾	597	(597)		—	480	(480)		—
Other ⁽²⁾	245	24		—	269	176	3	—
Single-family ending balance	3,602	3,334		48	6,984	6,420	3,632	54
Multifamily ending balance	8	2		8	18	32	1	8
Total ending balance	\$3,610	\$3,336		\$56	\$7,002	\$6,452	\$3,633	\$62

(1) Relates to removal of delinquent single-family loans from consolidated trusts and resecuritization after such removal.

(2) Primarily includes capitalization of past due interest on modified loans.

A significant number of unsecuritized single-family loans on our condensed consolidated balance sheets are individually evaluated for impairment while substantially all single-family loans held by our consolidated trusts are collectively evaluated for impairment. The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 6.6% and 7.8% of the recorded investment in such loans at September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

The table below presents our allowance for loan losses and our recorded investment in loans, held-for-investment, by impairment evaluation methodology.

(In millions)	September 30, 2018			December 31, 2017		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	\$1,805,640	\$16,698	\$1,822,338	\$1,764,750	\$21,301	\$1,786,051
Individually evaluated	50,016	96	50,112	59,237	132	59,369
Total recorded investment	1,855,656	16,794	1,872,450	1,823,987	21,433	1,845,420
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,799)	(10)	(1,809)	(2,301)	(28)	(2,329)
Individually evaluated	(5,137)	—	(5,137)	(6,630)	(7)	(6,637)
Total ending balance of the allowance	(6,936)	(10)	(6,946)	(8,931)	(35)	(8,966)
Net investment in loans	\$1,848,720	\$16,784	\$1,865,504	\$1,815,056	\$21,398	\$1,836,454

Freddie Mac Form 10-Q 98

Allowance for Loan Losses Determined on an Individual Basis

Impaired Loans

The tables below present the UPB, recorded investment, related allowance for loan losses, average recorded investment and interest income recognized for individually impaired loans.

(In millions)	September 30, 2018			December 31, 2017		
	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family:						
With no allowance recorded: ⁽¹⁾						
20 and 30-year or more, amortizing fixed-rate	\$3,458	\$2,740	N/A	\$3,768	\$2,908	N/A
15-year amortizing fixed-rate	20	18	N/A	24	21	N/A
Adjustable-rate	225	224	N/A	259	256	N/A
Alt-A, interest-only, and option ARM	1,229	1,036	N/A	1,558	1,297	N/A
Total with no allowance recorded	4,932	4,018	N/A	5,609	4,482	N/A
With an allowance recorded: ⁽²⁾						
20 and 30-year or more, amortizing fixed-rate	40,608	39,903	(\$4,301)	47,897	46,783	(\$5,505)
15-year amortizing fixed-rate	735	745	(21)	752	757	(24)
Adjustable-rate	183	180	(11)	232	228	(14)
Alt-A, interest-only, and option ARM	5,494	5,170	(804)	7,407	6,987	(1,087)
Total with an allowance recorded	47,020	45,998	(5,137)	56,288	54,755	(6,630)
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	44,066	42,643	(4,301)	51,665	49,691	(5,505)
15-year amortizing fixed-rate	755	763	(21)	776	778	(24)
Adjustable-rate	408	404	(11)	491	484	(14)
Alt-A, interest-only, and option ARM	6,723	6,206	(804)	8,965	8,284	(1,087)
Total single-family	51,952	50,016	(5,137)	61,897	59,237	(6,630)
Multifamily:						
With no allowance recorded: ⁽¹⁾	101	93	N/A	106	97	N/A
With an allowance recorded	3	3	—	35	35	(7)
Total multifamily	104	96	—	141	132	(7)
Total single-family and multifamily	\$52,056	\$50,112	(\$5,137)	\$62,038	\$59,369	(\$6,637)

Referenced footnotes are included after the last table in the Impaired Loans section.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	3Q 2018			3Q 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽³⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽³⁾
Single-family:						
With no allowance recorded: ⁽¹⁾						
20 and 30-year or more, amortizing fixed-rate	\$3,142	\$83	\$3	\$3,367	\$97	\$3
15-year amortizing fixed-rate	20	—	—	24	—	—
Adjustable rate	238	3	—	287	2	—
Alt-A, interest-only, and option ARM	1,159	21	1	1,390	29	1
Total with no allowance recorded	4,559	107	4	5,068	128	4
With an allowance recorded: ⁽²⁾						
20 and 30-year or more, amortizing fixed-rate	42,393	520	52	53,250	618	58
15-year amortizing fixed-rate	740	7	2	758	8	2
Adjustable rate	183	2	—	236	2	1
Alt-A, interest-only, and option ARM	5,622	72	7	8,014	89	7
Total with an allowance recorded	48,938	601	61	62,258	717	68
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	45,535	603	55	56,617	715	61
15-year amortizing fixed-rate	760	7	2	782	8	2
Adjustable rate	421	5	—	523	4	1
Alt-A, interest-only, and option ARM	6,781	93	8	9,404	118	8
Total single-family	53,497	708	65	67,326	845	72
Multifamily:						
With no allowance recorded: ⁽¹⁾	112	2	1	115	2	1
With an allowance recorded	3	—	—	15	—	—
Total multifamily	115	2	1	130	2	1
Total single-family and multifamily	\$53,612	\$710	\$66	\$67,456	\$847	\$73

Referenced footnotes are included after the last table in the Impaired Loans section.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	YTD 2018			YTD 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽³⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽³⁾
Single-family —						
With no allowance recorded: ⁽¹⁾						
20 and 30-year or more, amortizing fixed-rate	\$3,399	\$268	\$13	\$3,733	\$307	\$12
15-year amortizing fixed-rate	21	3	—	26	1	—
Adjustable rate	255	9	—	301	8	—
Alt-A, interest-only, and option ARM	1,319	68	3	1,518	85	3
Total with no allowance recorded	4,994	348	16	5,578	401	15
With an allowance recorded: ⁽²⁾						
20 and 30-year or more, amortizing fixed-rate	46,140	1,621	217	62,277	1,931	188
15-year amortizing fixed-rate	830	21	8	18,292	25	5
Adjustable rate	210	4	2	430	7	2
Alt-A, interest-only, and option ARM	6,357	205	24	7,033	296	26
Total with an allowance recorded	53,537	1,851	251	88,032	2,259	221
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	49,539	1,889	230	66,010	2,238	200
15-year amortizing fixed-rate	851	24	8	18,318	26	5
Adjustable rate	465	13	2	731	15	2
Alt-A, interest-only, and option ARM	7,676	273	27	8,551	381	29
Total single-family	58,531	2,199	267	93,610	2,660	236
Multifamily:						
With no allowance recorded: ⁽¹⁾						
With an allowance recorded	132	5	2	287	7	2
Total multifamily	3	—	—	25	1	1
Total single-family and multifamily	135	5	2	312	8	3
Total single-family and multifamily	\$58,666	\$2,204	\$269	\$93,922	\$2,668	\$239

Individually impaired loans with no allowance primarily represent those loans for which the collateral value is (1) sufficiently in excess of the loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.

(2) Consists primarily of loans classified as TDRs.

(3) Consists of income recognized during the period related to loans on non-accrual status.

Troubled Debt Restructurings (TDRs)

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs, based on the original product 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)	3Q 2018		3Q 2017		YTD 2018		YTD 2017	
	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family: ⁽¹⁾								
20 and 30-year or more, amortizing fixed-rate	7,157	\$1,091	7,502	\$1,069	37,847	\$6,159	24,485	\$3,503
15-year amortizing fixed-rate	909	83	993	75	5,194	514	3,275	251
Adjustable-rate	197	27	202	30	773	122	667	97
Alt-A, interest-only, and option ARM	414	65	645	119	2,294	379	1,926	344
Total single-family	8,677	1,266	9,342	1,293	46,108	7,174	30,353	4,195
Multifamily	—	\$—	1	\$—	1	\$15	1	\$—

The pre-TDR recorded investment for single-family loans initially classified as TDR during 3Q 2018 and YTD (1)2018 was \$1.3 billion and \$7.2 billion, respectively, compared to \$1.3 billion and \$4.2 billion during 3Q 2017 and YTD 2017, respectively.

Of the single-family loans that were newly classified as TDRs during 3Q 2018, 3Q 2017, YTD 2018 and YTD 2017 respectively:

n 9%, 37%, 12% and 41% involved interest rate reductions and, in certain cases, term extensions;

n 21%, 11%, 24% and 12% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions;

n The average term extension was 110, 179, 126 and 175 months; and

n The average interest rate reduction was 0.2%, 0.4%, 0.3% and 0.7%.

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents loans based on their original product category before modification.

(Dollars in millions)	3Q 2018		3Q 2017		YTD 2018		YTD 2017	
	Number	Post-TDR Recorded Investment	Number	Post-TDR Recorded Investment	Number	Post-TDR Recorded Investment	Number	Post-TDR Recorded Investment
Single-family:								
20 and 30-year or more, amortizing fixed-rate	3,584	\$512	3,526	\$555	9,671	\$1,435	10,183	\$1,642
15-year amortizing fixed-rate	116	10	191	14	435	36	505	40
Adjustable-rate	53	9	47	8	139	21	156	24
Alt-A, interest-only, and option ARM	302	55	336	62	827	154	924	188
Total single-family	4,055	586	4,100	639	11,072	1,646	11,768	1,894
Multifamily	—	\$—	—	\$—	—	\$—	—	\$—

In addition, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or loans in modification trial periods). During YTD 2018 and YTD 2017, 6,487 and 5,523, respectively, of such loans (with a post-TDR recorded investment of \$0.8 billion and \$0.7 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

Loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During YTD 2018 and YTD 2017, 386 and 665, respectively, of such loans (with a post-TDR recorded investment of \$45 million and \$76 million, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

Non-Cash Investing and Financing Activities

During YTD 2018 and YTD 2017, we acquired \$122.6 billion and \$161.5 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. We received approximately \$18.9 billion and \$25.3 billion of loans from sellers during YTD 2018 and YTD 2017, respectively, to satisfy advances to lenders that were recorded in other assets on our condensed consolidated balance sheets. These loans were primarily included in the guarantor swap transactions. In addition, we acquire REO properties through foreclosure sales or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During YTD 2018 and YTD 2017, we had transfers of \$0.7 billion and \$0.9 billion, respectively, from loans to REO.

NOTE 5

Guarantee Activities

We generate revenue through our guarantee activities by agreeing to absorb the credit risk associated with certain financial instruments that are owned or held by third parties. In exchange for providing this guarantee, we receive an ongoing guarantee fee that is commensurate with the risks assumed and that will, over the long-term, provide us with cash flows that are expected to exceed the credit-related and administrative expenses of the underlying financial instruments. The profitability of our guarantee activities may vary and will be dependent on our guarantee fee and the actual credit performance of the underlying financial instruments that we have guaranteed.

The table below shows our maximum exposure, recognized liability and maximum remaining term of our recognized guarantees to non-consolidated VIEs and other third parties. This table does not include our unrecognized guarantees, such as guarantees to consolidated VIEs or to securitization trusts that do not expose us to incremental credit risk. The maximum exposure disclosed in the table is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements. See Note 6 for additional information on our credit enhancement arrangements.

(Dollars in millions, terms in years)	September 30, 2018			December 31, 2017		
	Maximum Exposure	Recognized Liability ⁽²⁾	Maximum Remaining Term	Maximum Exposure	Recognized Liability ⁽²⁾	Maximum Remaining Term
Single-family:						
Securitization activity guarantees	\$15,355	\$185	40	\$10,817	\$120	40
Other mortgage-related guarantees	6,078	171	30	6,264	190	31
Total single-family	\$21,433	\$356		\$17,081	\$310	
Multifamily:						
Securitization activity guarantees	\$210,163	\$2,541	40	\$188,768	\$2,305	40
Other mortgage-related guarantees	10,008	451	36	9,888	466	36
Total multifamily	\$220,171	\$2,992		\$198,656	\$2,771	
Other guarantees measured at fair value	\$15,611	\$209	30	\$9,661	\$141	28

The maximum exposure represents the contractual amounts that could be lost if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. For other guarantees measured at fair value, this amount represents the notional value if it relates to our market value guarantees or guarantees of third party derivative instruments; or the UPB if it relates to a guarantee of a mortgage-related asset. For certain of our other guarantees measured at fair value, our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

For securitization activity guarantees and other mortgage-related guarantees, this amount represents the guarantee obligation on our condensed consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled \$56 million and \$57 million as of September 30, 2018 and December 31, 2017, respectively, and is included within other liabilities on our condensed consolidated balance sheets. For other guarantees measured at fair value, this amount represents the fair value of the contract.

NOTE 6

Credit Enhancements

In connection with many of our mortgage loans, securitization activity guarantees, other mortgage-related guarantees and other credit risk transfer transactions, we obtain various forms of credit enhancements that reduce our exposure to credit losses. These credit enhancements may be attached to the underlying mortgage loans, freestanding or embedded in debt instruments.

Attached Credit Enhancements

The table below presents the total current and protected UPB and maximum coverage provided by our attached credit enhancements. For information about counterparty credit risk associated with mortgage insurers, see Note 14.

(In millions)	September 30, 2018		December 31, 2017	
	Total		Total	
	Current	Maximum	Current	Maximum
	and Protected UPB ⁽¹⁾	Coverage ⁽²⁾	and Protected UPB ⁽¹⁾	Coverage ⁽²⁾

Single-family:

Primary mortgage insurance \$366,731 \$93,931 \$334,189 \$85,429

(1) Underlying loans may be covered by more than one form of credit enhancement, including freestanding credit enhancements and debt with embedded credit enhancements.

(2) Represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

Freestanding Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to our single-family and multifamily freestanding credit enhancements.

(In millions)	September 30, 2018		December 31, 2017	
	Total Current and Protected UPB ⁽¹⁾	Maximum Coverage ⁽²⁾	Total Current and Protected UPB ⁽¹⁾	Maximum Coverage ⁽²⁾
Single-family:				
Subordination (non-consolidated VIEs)	\$13,778	\$2,474	\$8,953	\$1,734
ACIS ⁽³⁾⁽⁴⁾	753,298	8,375	625,086	8,933
Other ⁽⁴⁾⁽⁵⁾	120,315	9,208	8,623	6,282
Total single-family		20,057		14,949
Multifamily:				
Subordination (non-consolidated VIEs)	209,801	34,014	187,299	30,689
Other ⁽⁶⁾	2,193	789	1,833	726
Total multifamily		34,803		31,415
Total single-family and multifamily freestanding credit enhancements		\$54,860		\$46,364

- (1) Underlying loans may be covered by more than one form of credit enhancement, including attached credit enhancements and debt with embedded credit enhancements. For subordination, total current and protected UPB includes the UPB of the guaranteed securities and the UPB of guarantor advances made to the holders of the guaranteed securities.

For subordination, maximum coverage represents the UPB of the securities that are subordinate to our guarantee and held by third parties. For all other freestanding credit enhancements, maximum coverage represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

(3) As of September 30, 2018 and December 31, 2017, our counterparties posted collateral held by third parties on our ACIS transactions of \$1.5 billion and \$1.1 billion, respectively.

(4) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed under "Other" transactions. The current and prior period presentation has been modified to reflect this change.

(5) Includes seller indemnification, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

(6) Consists of multifamily HFA indemnification and loss reimbursement agreements with third parties obtained in certain of our Q Certificate transactions.

In addition to the credit enhancements disclosed above, the Multifamily segment has other credit enhancements. Recoveries from these other credit enhancements have been minimal as the historical losses on our multifamily mortgage loans and amounts paid under our guarantee contracts have not been significant. Therefore, these other credit enhancements have been excluded from the table.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 6

Debt with Embedded Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to debt with embedded credit enhancements.

(In millions)	September 30, 2018		December 31, 2017	
	Total Current and Protected UPB ⁽¹⁾	Maximum Coverage ⁽²⁾	Total Current and Protected UPB ⁽¹⁾	Maximum Coverage ⁽²⁾
Single-family:				
STACR debt notes	\$621,350	\$18,078	\$604,356	\$17,788
Subordination (consolidated VIEs)	18,640	786	3,330	179
Total single-family		18,864		17,967
Multifamily:				
SCR debt notes	2,678	134	2,732	137
Subordination (consolidated VIEs)	2,700	280	1,800	180
Total multifamily		414		317
Total single-family and multifamily debt with embedded credit enhancements		\$19,278		\$18,284

Underlying loans may be covered by more than one form of credit enhancement, including attached credit enhancements and freestanding credit enhancements. For STACR debt notes and SCR debt notes, total current and protected UPB represents the UPB of the assets included in the reference pool. For subordination, total current and protected UPB represents the UPB of the guaranteed securities.

(1) For STACR debt notes and SCR debt notes, maximum coverage amount represents the outstanding balance of the STACR debt notes and SCR debt notes held by third parties. For subordination, maximum coverage amount represents the UPB of the securities that are subordinate to our guarantee and held by third parties.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 7

NOTE 7

Investments in Securities

The table below summarizes the fair values of our investments in debt securities by classification.

(In millions)	September 30, December	
	2018	31, 2017
Trading securities	\$41,201	\$40,721
Available-for-sale securities	34,729	43,597
Total	\$75,930	\$84,318

As of September 30, 2018 and December 31, 2017, we did not classify any securities as held-to-maturity, although we may elect to do so in the future.

Trading Securities

The table below presents the estimated fair values of our trading securities by major security type. Our non-mortgage-related securities primarily consist of investments in U.S. Treasury securities.

(In millions)	SeptemberDecember	
	30, 2018	31, 2017
Mortgage-related securities:		
Freddie Mac	\$11,899	\$12,235
Other agency	2,731	3,574
Non-agency RMBS	691	750
Non-agency CMBS	401	1,343
Total mortgage-related securities	15,722	17,902
Non-mortgage-related securities	25,479	22,819
Total fair value of trading securities	\$41,201	\$40,721

For trading securities held at September 30, 2018, we recorded net unrealized gains (losses) of (\$305) million and (\$951) million during 3Q 2018 and YTD 2018, respectively. For trading securities held at September 30, 2017, we recorded net unrealized gains (losses) of (\$49) million and (\$196) million during 3Q 2017 and YTD 2017, respectively.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 7

Available-for-Sale Securities

At September 30, 2018 and December 31, 2017, all available-for-sale securities were mortgage-related securities. The tables below present the amortized cost, gross unrealized gains and losses and fair value by major security type for our securities classified as available-for-sale.

	September 30, 2018					
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other-Than-Temporary Impairment ⁽¹⁾	Gross Unrealized Losses Temporary Impairment ⁽²⁾		Fair Value
Available-for-sale securities:						
Freddie Mac	\$29,826	\$182	\$—	(\$840)		\$29,168
Other agency	1,876	35	—	(6)		1,905
Non-agency RMBS	1,428	387	—	(1)		1,814
Non-agency CMBS	1,686	—	(8)	(79)		1,599
Obligations of states and political subdivisions	242	2	—	(1)		243
Total available-for-sale securities	\$35,058	\$606	(\$8)	(\$927)		\$34,729

	December 31, 2017					
(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Other-Than-Temporary Impairment ⁽¹⁾	Gross Unrealized Losses Temporary Impairment ⁽²⁾		Fair Value
Available-for-sale securities:						
Freddie Mac	\$35,433	\$499	\$—	(\$462)		\$35,470
Other agency	2,008	56	—	(11)		2,053
Non-agency RMBS	3,012	927	(5)	(1)		3,933
Non-agency CMBS	1,773	22	(9)	(2)		1,784
Obligations of states and political subdivisions	352	5	—	—		357
Total available-for-sale securities	\$42,578	\$1,509	(\$14)	(\$476)		\$43,597

(1) Represents the gross unrealized losses for securities for which we have previously recognized other-than-temporary impairment in earnings.

(2) Represents the gross unrealized losses for securities for which we have not previously recognized other-than-temporary impairment in earnings.

The fair value of our available-for-sale securities held at September 30, 2018 scheduled to contractually mature after ten years was \$31.2 billion, with an additional \$3.0 billion scheduled to contractually mature after five years through ten years.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 7

Available-For-Sale Securities in a Gross Unrealized Loss Position

The tables below present available-for-sale securities in a gross unrealized loss position and whether such securities have been in an unrealized loss position for less than 12 months, or 12 months or greater.

(In millions)	September 30, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	\$11,689	(\$199)	\$10,081	(\$641)
Other agency	239	(1)	705	(5)
Non-agency RMBS	1	—	6	(1)
Non-agency CMBS	1,581	(79)	16	(8)
Obligations of states and political subdivisions	33	(1)	—	—
Total available-for-sale securities in a gross unrealized loss position	\$13,543	(\$280)	\$10,808	(\$655)

(In millions)	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	\$10,337	(\$107)	\$9,251	(\$355)
Other agency	40	—	1,079	(11)
Non-agency RMBS	5	—	105	(6)
Non-agency CMBS	1,026	(2)	52	(9)
Obligations of states and political subdivisions	12	—	21	—
Total available-for-sale securities in a gross unrealized loss position	\$11,420	(\$109)	\$10,508	(\$381)

At September 30, 2018, the gross unrealized losses relate to 421 separate securities.

Realized Gains and Losses on Sales of Available-For-Sale Securities

The table below summarizes the gross realized gains and gross realized losses from the sale of available-for-sale securities.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Gross realized gains	\$69	\$806	\$544	\$1,153
Gross realized losses	(131)	(10)	(232)	(44)
Net realized gains (losses)	(\$62)	\$796	\$312	\$1,109
Non-Cash Investing and Financing Activities				

During 3Q 2018, we purchased \$3.6 billion and sold \$3.7 billion of non-mortgage-related securities that were traded, but not settled. We settled our purchase and sale obligations during 4Q 2018.

NOTE 8

Debt Securities and Subordinated Borrowings

The table below summarizes the interest expense per our condensed consolidated statements of comprehensive income and the balances of total debt, net per our condensed consolidated balance sheets.

(In millions)	Balance, Net		Interest Expense			
	September 30, 2018	December 31, 2017	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Debt securities of consolidated trusts held by third parties	\$1,765,045	\$1,720,996	\$12,827	\$11,852	\$37,996	\$35,567
Other debt:						
Short-term debt	68,498	73,069	361	173	832	414
Long-term debt	208,447	240,565	1,358	1,359	3,974	4,109
Total other debt	276,945	313,634	1,719	1,532	4,806	4,523
Total debt, net	\$2,041,990	\$2,034,630	\$14,546	\$13,384	\$42,802	\$40,090

Our debt cap under the Purchase Agreement is \$346.1 billion in 2018 and will decline to \$300 billion on January 1, 2019. As of September 30, 2018, our aggregate indebtedness for purposes of the debt cap was \$281.1 billion. Our aggregate indebtedness calculation primarily includes the par value of other short- and long-term debt.

Debt Securities of Consolidated Trusts Held by Third Parties

The table below summarizes the debt securities of consolidated trusts held by third parties based on underlying loan product type.

	September 30, 2018				December 31, 2017				
(Dollars in millions)	Contractual Maturity	UPB	Carrying Amount ⁽¹⁾	Weighted Average Coupon ⁽²⁾		Contractual Maturity	UPB	Carrying Amount ⁽¹⁾	Weighted Average Coupon ⁽²⁾
Single-family:									
30-year or more, fixed-rate	2018 - 2056	\$1,352,288	\$1,390,045	3.70 %		2018 - 2055	\$1,278,911	\$1,318,350	3.68 %
20-year fixed-rate	2018 - 2038	70,543	72,447	3.42		2018 - 2038	73,866	76,022	3.43
15-year fixed-rate	2018 - 2033	246,022	250,582	2.87		2018 - 2033	260,633	266,241	2.86
Adjustable-rate	2018 - 2048	40,696	41,548	3.04		2018 - 2048	47,169	48,220	2.85
Interest-only	2026 - 2041	15,507	5,564	4.21		2026 - 2041	17,303	7,379	3.74
FHA/VA	2018 - 2046	746	763	4.80		2018 - 2046	847	866	4.85
Total single-family		1,715,802	1,760,949				1,668,729	1,717,078	
Multifamily	2019-2047	4,045	4,096	3.88		2019-2047	3,876	3,918	3.99
Total debt securities of consolidated trusts held by third parties		\$1,719,847	\$1,765,045				\$1,672,605	\$1,720,996	

(1) Includes \$735 million and \$639 million at September 30, 2018 and December 31, 2017, respectively, of debt of consolidated trusts that represents the fair value of debt securities with the fair value option elected.

(2) The effective interest rate for debt securities of consolidated trusts held by third parties was 2.93% and 2.84% as of September 30, 2018 and December 31, 2017, respectively.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 8

Other Debt

The table below summarizes the balances and effective interest rates for other debt.

(Dollars in millions)	September 30, 2018			December 31, 2017		
	Par Value	Carrying Amount ⁽¹⁾	Weighted Average Effective Rate ⁽²⁾	Par Value	Carrying Amount ⁽¹⁾	Weighted Average Effective Rate ⁽²⁾
Other short-term debt:						
Discount notes and Reference Bills [®]	\$40,726	\$40,572	2.06 %	\$45,717	\$45,596	1.19 %
Medium-term notes	18,200	18,200	1.80	17,792	17,792	1.03
Securities sold under agreements to repurchase	9,726	9,726	2.03	9,681	9,681	1.06
Total other short-term debt	68,652	68,498	1.98	73,190	73,069	1.14
Other long-term debt:						
Original maturities on or before December 31,						
2018	10,267	10,267	1.24	70,557	70,587	1.16
2019	58,092	58,053	1.54	57,689	57,637	1.54
2020	41,506	41,482	1.76	38,117	38,087	1.68
2021	28,976	28,982	1.99	22,809	22,829	1.80
2022	20,231	20,203	2.44	18,538	18,506	2.38
Thereafter	34,426	31,881	4.16	17,281	14,660	5.29
STACR and SCR debt ⁽³⁾	18,212	18,585	5.75	17,925	18,338	5.06
Hedging-related basis adjustments	N/A	(1,006)		N/A	(79)	
Total other long-term debt ⁽⁴⁾	211,710	208,447	2.49	242,916	240,565	2.04
Total other debt	\$280,362	\$276,945		\$316,106	\$313,634	

Represents par value, net of associated discounts or premiums and issuance cost. Includes \$4.6 billion and \$5.2

(1) billion at September 30, 2018 and December 31, 2017, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Based on carrying amount.

Contractual maturities of these debt securities are not presented because they are subject to prepayment risk, as

(3) their payments are based upon the performance of a pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty.

(4) Carrying amount for other long-term debt includes callable debt of \$110.9 billion and \$113.8 billion at September 30, 2018 and December 31, 2017, respectively.

NOTE 9

Derivatives

Use of Derivatives

We use derivatives primarily to hedge interest-rate sensitivity mismatches between our financial assets and liabilities. We analyze the interest-rate sensitivity of financial assets and liabilities on a daily basis across a variety of interest-rate scenarios based on market prices, models and economics. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk and our overall risk management strategy.

We classify derivatives into three categories:

- Exchange-traded derivatives;

- Cleared derivatives; and

- OTC derivatives.

Exchange-traded derivatives include standardized interest-rate futures contracts and options on futures contracts.

Cleared derivatives refer to those interest-rate swaps that the U.S. Commodity Futures Trading Commission has determined are subject to the central clearing requirement of the Dodd-Frank Act. OTC derivatives refer to those derivatives that are neither exchange-traded derivatives nor cleared derivatives.

Types of Derivatives

We principally use the following types of derivatives:

- LIBOR-based interest-rate swaps;

- LIBOR- and Treasury-based purchased options (including swaptions); and

- LIBOR- and Treasury-based exchange-traded futures.

We also purchase swaptions on credit indices in order to obtain protection against adverse movements in multifamily spreads which may affect the profitability of our K Certificate or SB Certificate transactions.

In addition to swaps, futures and purchased options, our derivative positions include written options and swaptions, commitments and credit derivatives.

Hedge Accounting

Fair Value Hedges

We apply fair value hedge accounting to certain single-family mortgage loans and certain issuances of debt where we hedge the changes in fair value of these items attributable to the designated benchmark interest rate (i.e., LIBOR), using LIBOR-based interest-rate swaps.

Beginning on October 1, 2017, due to the adoption of amended hedge accounting guidance, if a hedge relationship qualifies for fair value hedge accounting, all changes in fair value of the derivative hedging

instrument, including interest accruals, are recognized in the same condensed consolidated statements of comprehensive income line item used to present the earnings effect of the hedged item. Therefore, changes in the fair value of the hedged item, mortgage loans and debt, attributable to the risk being hedged are recognized in interest income - mortgage loans and interest expense, respectively, along with the changes in the fair value of the respective derivative hedging instruments. Prior to October 1, 2017, if the hedge relationship qualified for hedge accounting, changes in the fair value of the derivative hedging instrument and changes in the fair value of the hedged item attributable to the risk being hedged were recognized in other income (loss) and interest accruals on the derivative hedging instrument were included in derivative gains (losses).

Cash Flow Hedges

There are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI are recorded in interest expense. During YTD 2018 and YTD 2017, we reclassified from AOCI into earnings, pre-tax losses of \$106 million and \$125 million, respectively, related to closed cash flow hedges. See Note 11 for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

Derivative Assets and Liabilities at Fair Value

The table below presents the notional value and fair value of derivatives reported on our condensed consolidated balance sheets.

(In millions)	September 30, 2018			December 31, 2017		
	Notional or Contractual Amount	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities	Notional or Contractual Amount	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities
Not designated as hedges						
Interest-rate swaps:						
Receive-fixed	\$158,117	\$1,041	(\$396)	\$213,717	\$2,121	(\$1,224)
Pay-fixed	175,055	1,105	(1,470)	185,400	751	(5,008)
Basis (floating to floating)	6,613	1	—	5,244	—	(2)
Total interest-rate swaps	339,785	2,147	(1,866)	404,361	2,872	(6,234)
Option-based:						
Call swaptions						
Purchased	51,650	1,373	—	58,975	2,709	—
Written	4,650	—	(67)	4,650	—	(101)
Put swaptions						
Purchased ⁽¹⁾	61,630	1,736	—	47,810	1,058	—
Written	3,000	—	(29)	3,000	—	(20)
Other option-based derivatives ⁽²⁾	10,523	552	—	10,683	757	—
Total option-based	131,453	3,661	(96)	125,118	4,524	(121)
Futures	176,344	—	—	267,385	—	—
Commitments	63,636	144	(80)	54,207	44	(64)
Credit derivatives	2,112	—	(48)	3,569	7	(46)
Other	11,490	21	(128)	2,906	1	(19)
Total derivatives not designated as hedges	724,820	5,973	(2,218)	857,546	7,448	(6,484)
Designated as fair value hedges						
Interest-rate swaps:						
Receive-fixed	90,428	—	(1,457)	83,352	2	(714)
Pay-fixed	67,505	595	(732)	69,402	1,388	(291)
Total derivatives designated as fair value hedges	157,933	595	(2,189)	152,754	1,390	(1,005)
Derivative interest receivable (payable)		969	(1,103)		1,407	(1,596)
Netting adjustments ⁽³⁾		(7,068)	5,215		(9,870)	8,816
Total derivative portfolio, net	\$882,753	\$469	(\$295)	\$1,010,300	\$375	(\$269)

Includes swaptions on credit indices with a notional or contractual amount of \$20.3 billion and \$13.4 billion at (1) September 30, 2018 and December 31, 2017, respectively, and a fair value of \$7.5 million and \$5.0 million at September 30, 2018 and December 31, 2017, respectively.

(2) Primarily consists of purchased interest-rate caps and floors and options on Treasury futures.

(3) Represents counterparty netting and cash collateral netting.

See Note 10 for information related to our derivative counterparties and collateral held and posted.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives, including the accrual of periodic cash settlements, while not designated in qualifying hedge relationships and reported on our condensed consolidated statements of comprehensive income as derivative gains (losses). In addition, for the 2017 periods, the table includes the accrual of periodic cash settlements on derivatives in qualifying hedge relationships.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Not designated as hedges				
Interest-rate swaps:				
Receive-fixed	(\$1,004)	(\$329)	(\$5,080)	\$195
Pay-fixed	1,721	352	7,922	(78)
Basis (floating to floating)	19	—	(9)	(1)
Total interest-rate swaps	736	23	2,833	116
Option-based:				
Call swaptions				
Purchased	(402)	(67)	(1,392)	(106)
Written	35	5	76	6
Put swaptions				
Purchased	136	(145)	524	(481)
Written	(2)	7	(23)	49
Other option-based derivatives ⁽¹⁾	(73)	2	(205)	13
Total option-based	(306)	(198)	(1,020)	(519)
Other:				
Futures	277	18	728	(212)
Commitments	69	(121)	672	(128)
Credit derivatives	(4)	(2)	(14)	(33)
Other	(71)	—	(64)	(6)
Total other	271	(105)	1,322	(379)
Accrual of periodic cash settlements:				
Receive-fixed interest-rate swaps	39	343	335	1,198
Pay-fixed interest-rate swaps	(50)	(741)	(536)	(2,492)
Other	38	—	40	—
Total accrual of periodic cash settlements	27	(398)	(161)	(1,294)
Total	\$728	(\$678)	\$2,974	(\$2,076)

(1) Primarily consists of purchased interest-rate caps and floors and options on Treasury futures.

Fair Value Hedges

The tables below present the effects of fair value hedge accounting by condensed consolidated statements of comprehensive income line, including the gains and losses on derivatives and hedged items designated in qualifying hedge relationships and other components due to the application of hedge accounting.

(In millions)	3Q 2018		
	Interest Income - Interest Mortgage Expense Loans		Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$16,787	(\$14,546)	\$394
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: ⁽¹⁾			
Hedged items	(755))—	—
Derivatives designated as hedging instruments	776	—	—
Interest accruals on hedging instruments	(96))—	—
Discontinued hedge related basis adjustment amortization	38	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	—	121	—
Derivatives designated as hedging instruments	—	(50))—
Interest accruals on hedging instruments	—	(96))—
Discontinued hedge related basis adjustment amortization	—	(1))—
	3Q 2017		
(In millions)	Interest		
	Income - Interest Mortgage Expense Loans		Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$15,867	(\$13,384)	\$5,403
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: ⁽¹⁾			
Hedged items	—	—	(15)
Derivatives designated as hedging instruments ⁽²⁾	—	—	85
Discontinued hedge related basis adjustment amortization	(8))—	—

Referenced footnotes are included after the next tables.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

(In millions)	YTD 2018		
	Interest Income - Interest Mortgage Loans	Expense	Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$49,082	(\$42,802)	\$1,526
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: ⁽¹⁾			
Hedged items	(3,441)	—	—
Derivatives designated as hedging instruments	3,087	—	—
Interest accruals on hedging instruments	(373)	—	—
Discontinued hedge related basis adjustment amortization	86	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	—	931	—
Derivatives designated as hedging instruments	—	(728)	—
Interest accruals on hedging instruments	—	(219)	—
Discontinued hedge related basis adjustment amortization	—	(2)	—
(In millions)	YTD 2017		
	Interest Income - Interest Mortgage Loans	Expense	Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$47,680	(\$40,090)	\$6,512
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: ⁽¹⁾			
Hedged items	—	—	351
Derivatives designated as hedging instruments ⁽²⁾	—	—	(215)
Discontinued hedge related basis adjustment amortization	(13)	—	—

In 3Q 2017 and YTD 2017, gains or losses on derivatives and hedged items were recorded in other income (loss).

(1) Beginning in 4Q 2017, gains and losses and interest accruals are recorded in interest income - mortgage loans in our condensed consolidated statements of comprehensive income due to adoption of amended hedge accounting guidance.

The gain or (loss) on fair value hedging relationships in 3Q 2017 and YTD 2017 excludes (\$101) million and (\$277) million, respectively, of interest accruals which were recorded in derivatives gains (losses) in our condensed consolidated statements of comprehensive income.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

Cumulative Basis Adjustments Due to Fair Value Hedging

The tables below present the hedged item cumulative basis adjustments due to qualifying fair value hedging and the related hedged item carrying amounts by their respective balance sheet line item.

September 30, 2018

	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount		Discontinued - Hedge Related
		Total		
(In millions)				
Mortgage loans held-for-investment	\$154,675	(\$3,011)	(\$3,011)
Debt	(99,739)	1,006	(10)

December 31, 2017

	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount		Discontinued - Hedge Related
		Total		
(In millions)				
Mortgage loans held-for-investment	\$128,140	\$198	\$198	
Debt	(92,277)	79	(14)

NOTE 10

Collateralized Agreements and Offsetting Arrangements

Derivative Portfolio

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives and OTC derivatives exposes us to counterparty credit risk.

Our use of interest-rate swaps and option-based derivatives is subject to internal credit and legal reviews. On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties, clearinghouses and clearing members to confirm that they continue to meet our internal risk management standards.

Over-the-Counter Derivatives

We use master netting and collateral agreements to reduce our credit risk exposure to our OTC derivative counterparties.

In the event that all of our counterparties for OTC derivatives were to have defaulted simultaneously on September 30, 2018, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$79 million.

Regulations adopted by certain financial institution regulators (including FHFA) that became effective March 1, 2017 require posting of variation margin without the application of any thresholds for OTC derivative transactions executed after that date. As a result, our and the counterparties' credit ratings are no longer used in determining the amount of collateral to be posted in connection with these transactions.

Cleared and Exchange-Traded Derivatives

The majority of our interest-rate swaps are subject to the central clearing requirement of the Dodd-Frank Act. A reduction in our credit ratings could cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

Other Derivatives

We also execute forward purchase and sale commitments of loans and mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes. The total net exposure on our forward purchase and sale commitments, which are treated as derivatives, was \$144 million and \$44 million at September 30, 2018 and December 31, 2017, respectively.

Many of our transactions involving forward purchase and sale commitments of mortgage-related securities utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation

("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the counterparty credit risk of the organization (including its clearing members).

Securities Purchased Under Agreements to Resell

As an investor, we enter into arrangements to purchase securities under agreements to subsequently resell the identical or substantially the same securities to our counterparty. Our counterparties to these transactions are required to pledge the purchased securities as collateral for their obligation to repurchase those securities at a later date. While such transactions involve the legal transfer of securities, they are accounted for as secured financings because the transferor does not relinquish effective control over the securities transferred. Although it is not our practice to repledge collateral that has been pledged to us, these agreements may allow us to repledge all or a portion of the collateral. We consider the types of securities being pledged to us as collateral when determining how much we lend in transactions involving securities purchased under agreements to resell. Additionally, we regularly review the market values of these securities compared to amounts loaned in an effort to manage our exposure to losses.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are effectively collateralized borrowings where we sell securities with an agreement to repurchase such securities at a future date. We are required to pledge the sold securities to the counterparties to these transactions as collateral for our obligation to repurchase these securities at a later date. Similar to the securities purchased under agreements to resell transactions, these transactions involve the legal transfer of securities. However, they are accounted for as secured financings because they require the identical or substantially the same securities to be subsequently repurchased. These agreements may allow our counterparties to repledge all or a portion of the collateral.

Offsetting of Financial Assets and Liabilities

At September 30, 2018 and December 31, 2017, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable. The tables below display offsetting and collateral information related to derivatives, securities purchased under agreements to resell and securities sold under agreements to repurchase which are subject to enforceable master netting agreements or similar arrangements. Securities sold under agreements to repurchase are included in debt, net on our condensed consolidated balance sheets. During 1Q 2018, certain rule amendments made by the LCH Group became effective. As a result, the legal characterization of variation margin payments for certain of our cleared swaps changed from posting of margin collateral to settlements. The table below reflects this change as of September 30, 2018.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 10

		September 30, 2018					
		Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets Counterparty Netting	Cash Collateral Netting ⁽¹⁾	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets ⁽²⁾	Net Amount
(In millions)							
Assets:							
Derivatives:							
OTC derivatives		\$7,365	(\$4,976)	(\$2,195)	\$194	(\$115)	\$79
Cleared and exchange-traded derivatives		7	—	103	110	—	110
Other		165	—	—	165	—	165
Total derivatives		7,537	(4,976)	(2,092)	469	(115)	354
Securities purchased under agreements to resell ⁽³⁾⁽⁴⁾		48,540	—	—	48,540	(48,540)	—
Total		\$56,077	(\$4,976)	(\$2,092)	\$49,009	(\$48,655)	\$354
Liabilities:							
Derivatives:							
OTC derivatives		(\$5,211)	\$4,976	\$211	(\$24)	\$—	(\$24)
Cleared and exchange-traded derivatives		(43)	—	28	(15)	—	(15)
Other		(256)	—	—	(256)	—	(256)
Total derivatives		(5,510)	4,976	239	(295)	—	(295)
Securities sold under agreements to repurchase ⁽⁴⁾		(9,726)	—	—	(9,726)	9,726	—
Total		(\$15,236)	\$4,976	\$239	(\$10,021)	\$9,726	(\$295)
		December 31, 2017					
		Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets Counterparty Netting	Cash Collateral Netting ⁽¹⁾	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets ⁽²⁾	Net Amount
(In millions)							
Assets:							
Derivatives:							
OTC derivatives		\$7,648	(\$5,499)	(\$1,903)	\$246	(\$205)	\$41
Cleared and exchange-traded derivatives		2,545	(2,266)	(202)	77	—	77
Other		52	—	—	52	—	52
Total derivatives		10,245	(7,765)	(2,105)	375	(205)	170
Securities purchased under agreements to resell ⁽³⁾⁽⁴⁾		55,903	—	—	55,903	(55,903)	—
Total		\$66,148	(\$7,765)	(\$2,105)	\$56,278	(\$56,108)	\$170
Liabilities:							
Derivatives:							
OTC derivatives		(\$6,285)	\$5,499	\$688	(\$98)	\$—	(\$98)
Cleared and exchange-traded derivatives		(2,671)	2,266	363	(42)	—	(42)
Other		(129)	—	—	(129)	—	(129)

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total derivatives	(9,085)	7,765	1,051	(269)	—	(269)
Securities sold under agreements to repurchase ⁽⁴⁾	(9,681)	—	—	(9,681)	9,681	—
Total	(\$18,766)	\$7,765	\$1,051	(\$9,950)	\$9,681	(\$269)

Freddie Mac Form 10-Q 122

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 10

- (1) Excess cash collateral held is presented as a derivative liability, while excess cash collateral posted is presented as a derivative asset.
- Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability, netted by counterparty, presented on the condensed consolidated balance sheets. For cleared and
- (2) exchange-traded derivatives, does not include non-cash collateral posted by us as initial margin with an aggregate fair value of \$2.8 billion and \$3.1 billion as of September 30, 2018 and December 31, 2017, respectively.
- We primarily execute securities purchased under agreements to resell transactions with central clearing organizations where we have the right to repledge the collateral that has been pledged to us, either with the central clearing organization or with other counterparties. At September 30, 2018, and December 31, 2017, we had \$32.7
- (3) billion and \$34.8 billion, respectively, of securities pledged to us in these transactions. In addition, at September 30, 2018 and December 31, 2017, we had \$2.8 billion and \$3.4 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell not executed with central clearing organizations that we had the right to repledge.
- (4) Does not include the impacts of netting by central clearing organizations.
- Collateral Pledged

Collateral Pledged to Freddie Mac

We have cash pledged to us as collateral primarily related to OTC derivative transactions. At September 30, 2018, we had \$2.5 billion pledged to us as collateral that was invested as part of our liquidity and contingency operating portfolio.

Collateral Pledged by Freddie Mac

The tables below summarize the fair value of the securities pledged as collateral by us for derivatives and collateralized borrowing transactions, including securities that the secured party may repledge.

September 30, 2018				
Securities sold under				
(In millions)	Derivatives	Agreements	Other ⁽²⁾	Total
	to repurchase			
Debt securities of consolidated trusts ⁽¹⁾	\$361	\$—	\$128	\$489
Trading securities	2,392	9,719	408	12,519
Total securities pledged	\$2,753	\$9,719	\$536	\$13,008

December 31, 2017				
Securities sold under				
(In millions)	Derivatives	Agreements	Other ⁽²⁾	Total
	to repurchase			
Debt securities of consolidated trusts ⁽¹⁾	\$375	\$—	\$111	\$486
Trading securities	2,766	9,705	362	12,833
Total securities pledged	\$3,141	\$9,705	\$473	\$13,319

Represents PCs held by us in our Capital Markets segment mortgage investments portfolio which are recorded as a

(1) reduction to debt securities of consolidated trusts held by third parties on our condensed consolidated balance sheets.

(2) Includes collateral related to transactions with certain clearinghouses.

The table below summarizes the underlying collateral pledged and the remaining contractual maturity of our gross obligations under securities sold under agreements to repurchase.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

September 30, 2018

(In millions)	September 30, 2018				Total
	Overnight and continuous	30 days through 90 days	After 30 days through 90 days	Greater than 90 days	
U.S. Treasury securities	\$4,627	\$4,314	\$778	\$—	\$9,719

Freddie Mac Form 10-Q 123

NOTE 11

Stockholders' Equity and Earnings Per Share
Accumulated Other Comprehensive Income

The tables below present changes in AOCI after the effects of our federal statutory tax rates of 21% and 35% for YTD 2018 and YTD 2017, respectively, related to available-for-sale securities, closed cash flow hedges and our defined benefit plans.

(In millions)	YTD 2018			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$662	(\$356)	\$83	\$389
Other comprehensive income before reclassifications ⁽¹⁾	(821)	—	(1)	(822)
Amounts reclassified from accumulated other comprehensive income	(244)	87	(12)	(169)
Changes in AOCI by component	(1,065)	87	(13)	(991)
Cumulative effect of change in accounting principle ⁽²⁾	143	(73)	19	89
Ending balance	(\$260)	(\$342)	\$89	(\$513)

(In millions)	YTD 2017			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$915	(\$480)	\$21	\$456
Other comprehensive income before reclassifications ⁽¹⁾	955	—	(2)	953
Amounts reclassified from accumulated other comprehensive income	(709)	81	(1)	(629)
Changes in AOCI by component	246	81	(3)	324
Ending balance	\$1,161	(\$399)	\$18	\$780

(1) For YTD 2018 and YTD 2017, net of tax expense (benefit) of \$0.2 billion and \$0.5 billion, respectively, for AOCI related to available-for-sale securities.

(2) Includes the effect of adopting the accounting guidance on reclassification of stranded tax effects of the Tax Cuts and Jobs Act.

In 1Q 2018, we adopted the accounting guidance related to the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The reclassification includes stranded tax effects related to unrealized gains and losses on available-for-sale securities, deferred net losses on closed cash flow hedges and our defined benefit plans.

Reclassifications from AOCI to Net Income

The table below presents reclassifications from AOCI to net income, including the affected line item in our condensed consolidated statements of comprehensive income.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
AOCI related to available-for-sale securities				
Affected line items in the consolidated statements of comprehensive income:				
Other gains (losses) on investment securities recognized in earnings	(\$62)	\$796	\$312	\$1,109
Net impairment of available-for-sale securities recognized in earnings	(2)	(1)	(3)	(17)
Total before tax	(64)	795	309	1,092
Income tax (expense) or benefit	13	(279)	(65)	(383)
Net of tax	(51)	516	244	709
AOCI related to cash flow hedge relationships				
Affected line items in the consolidated statements of comprehensive income:				
Interest expense	(31)	(40)	(106)	(125)
Income tax (expense) or benefit	6	14	19	44
Net of tax	(25)	(26)	(87)	(81)
AOCI related to defined benefit plans				
Affected line items in the consolidated statements of comprehensive income:				
Salaries and employee benefits	5	1	15	1
Income tax (expense) or benefit	(1)	—	(3)	—
Net of tax	4	1	12	1
Total reclassifications in the period	(\$72)	\$491	\$169	\$629
Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges				

The total AOCI related to derivatives designated as cash flow hedges was a loss of \$0.3 billion and \$0.4 billion at September 30, 2018 and September 30, 2017, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately \$78 million, net of taxes, of the \$0.3 billion of cash flow hedge losses in AOCI at September 30, 2018 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 15 years.

Senior Preferred Stock

As of September 30, 2018, 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 of \$5.6 billion as of September 30, 2018 and the Capital Reserve Amount of \$3.0 billion, our dividend requirement to Treasury in December 2018 will be \$2.6 billion. See Note 2 for additional information.

Upon the Conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors, declaring a senior preferred stock dividend equal to our dividend requirement and directing us to pay it before December 31, 2018, we would pay a dividend of \$2.6 billion by December 31, 2018. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement. Our cumulative senior preferred stock dividend payments totaled \$114.0 billion as of September 30, 2018. The aggregate liquidation preference of the senior preferred stock owned by Treasury was \$75.6 billion and \$75.3 billion as of September 30, 2018 and December 31, 2017, respectively.

Stock Issuances and Repurchases

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 3Q 2018.

Earnings Per Share

We have participating securities related to restricted stock units with dividend equivalent rights that receive dividends as declared on an equal basis with common shares but are not obligated to participate in undistributed net losses. These participating securities consist of vested restricted stock units that earn dividend equivalents at the same rate when and as declared on common stock.

Consequently, in accordance with accounting guidance, we use the "two-class" method of computing earnings per common share. The "two-class" method is an earnings allocation formula that determines earnings per share for common stock and participating securities based on dividends declared and participation rights in undistributed earnings.

Basic earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement. These shares are included since the warrant is unconditionally exercisable by the holder at a minimal cost.

Diluted earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding during the period adjusted for the dilutive effect of common equivalent shares outstanding. For periods with net income attributable to common stockholders, the calculation includes the effect of the weighted-average of restricted stock units.

During periods in which a net loss attributable to common stockholders has been incurred, potential

common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect. There were no stock options outstanding at both September 30, 2018 and September 30, 2017.

Dividends Declared

No common dividends were declared during YTD 2018. During 1Q 2018 and 2Q 2018, we did not pay dividends on the senior preferred stock. At the direction of our Conservator, we paid dividends of \$1.6 billion in cash on the senior preferred stock during 3Q 2018. In addition, we did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during YTD 2018.

NOTE 12

Income Taxes

Income Tax Expense

For 3Q 2018 and 3Q 2017, we reported income tax expense of \$0.6 billion and \$2.5 billion, respectively, resulting in effective tax rates of 17.0% and 35.0%, respectively. For YTD 2018 and YTD 2017, we reported income tax expense of \$1.9 billion and \$4.5 billion, respectively, resulting in effective tax rates of 19.3% and 34.3%, respectively. Our effective tax rate for YTD 2018 differed from the statutory tax rate of 21% primarily due to the adjustment of the revaluation of our net deferred tax asset to the enacted rate with the filing of our 2017 tax return, which reduced the write-down of the deferred tax asset taken in 4Q 2017. Our effective tax rate for YTD 2017 differed from the statutory tax rate of 35% primarily due to our recognition of low income housing tax credits.

Deferred Tax Assets, Net

We had net deferred tax assets of \$7.9 billion and \$8.1 billion as of September 30, 2018 and December 31, 2017, respectively. At September 30, 2018, our net deferred tax assets consisted primarily of basis differences related to derivative instruments and deferred fees.

Based on all positive and negative evidence available at September 30, 2018, we determined that it is more likely than not that our net deferred tax assets, except for a portion of the deferred tax asset related to our capital loss carryforward, will be realized. As of September 30, 2018, we have a \$46 million valuation allowance recorded against our capital loss carryforward deferred tax asset.

Unrecognized Tax Benefits

We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of September 30, 2018.

NOTE 13

Segment Reporting

We have three reportable segments, which are based on the type of business activities each performs - Single-family Guarantee, Multifamily and Capital Markets. Material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments are included in the All Other category. For more information, see our 2017 Annual Report.

Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses, including funding costs and administrative expenses, to our three reportable segments.

We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See Note 2 for information about the conservatorship.

The table below presents Segment Earnings by segment.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	\$1,065	\$255	\$2,570	\$1,743
Multifamily	546	374	1,566	1,212
Capital Markets	1,095	4,042	3,999	5,591
All Other	—	—	—	—
Total Segment Earnings, net of taxes	2,706	4,671	8,135	8,546
Net income	\$2,706	\$4,671	\$8,135	\$8,546
Comprehensive income (loss) of segments:				
Single-family Guarantee	\$1,063	\$255	\$2,562	\$1,741
Multifamily	502	370	1,430	1,277
Capital Markets	994	4,025	3,152	5,852
All Other	—	—	—	—
Comprehensive income of segments	2,559	4,650	7,144	8,870
Comprehensive income	\$2,559	\$4,650	\$7,144	\$8,870

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 13

The tables below present detailed reconciliations between our GAAP financial statements and Segment Earnings for our reportable segments and All Other.

(In millions)	3Q 2018						Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Segment Earnings (Loss)	Reclassifications	
Net interest income	\$—	\$277	\$923	\$—	\$1,200	\$2,057	\$3,257
Guarantee fee income ⁽¹⁾	1,576	210	—	—	1,786	(1,577)	) 209
Benefit (provision) for credit losses	196	2	—	—	198	182	380
Net impairment of available-for-sale securities recognized in earnings	—	—	7	—	7	(9	) (2)
Derivative gains (losses)	(25	)375	427	—	777	(49	) 728
Gains (losses) on trading securities	—	(93	) (286	)—	(379	)—	(379)
Gains (losses) on loans	—	(284	)—	—	(284	)111	(173)
Other non-interest income (loss)	373	295	327	—	995	(553	) 442
Administrative expense	(371	) (109	) (89	)—	(569	)—	(569)
REO operations expense	(42	)—	—	—	(42	)4	(38)
Other non-interest expense	(413	) (14	)—	—	(427	) (166	) (593)
Income tax expense	(229	) (113	) (214	)—	(556	)—	(556)
Net income	1,065	546	1,095	—	2,706	—	2,706
Changes in unrealized gains (losses) related to available-for-sale securities	—	(44	) (125	)—	(169	)—	(169)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	25	—	25	—	25
Changes in defined benefit plans	(2	)—	(1	)—	(3	)—	(3)
Total other comprehensive income (loss), net of taxes	(2	) (44	) (101	)—	(147	)—	(147)
Comprehensive income	\$1,063	\$502	\$994	\$—	\$2,559	\$—	\$2,559

Referenced footnote is included after the YTD 2017 table.

(In millions)	YTD 2018						Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Segment Earnings (Loss)	Reclassifications	
Net interest income	\$—	\$841	\$2,602	\$—	\$3,443	\$5,835	\$9,278
Guarantee fee income ⁽¹⁾	4,660	609	—	—	5,269	(4,666	) 603
Benefit (provision) for credit losses	327	20	—	—	347	30	377
Net impairment of available-for-sale securities recognized in earnings	—	—	144	—	144	(147	) (3)
Derivative gains (losses)	(37	)1,254	2,038	—	3,255	(281	) 2,974
Gains (losses) on trading securities	—	(344	) (989	)—	(1,333	)—	(1,333)

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Gains (losses) on loans	—	(797	) —	—	(797	) 466	(331)
Other non-interest income (loss)	598	704	1,429	—	2,731	(762	) 1,969	
Administrative expense	(1,070	) (315	) (262	) —	(1,647	) —	(1,647)
REO operations expense	(101	) 1	—	—	(100	) 13	(87)
Other non-interest expense	(1,192	) (33	) (6	) —	(1,231	) (488	) (1,719)
Income tax expense	(615	) (374	) (957	) —	(1,946	) —	(1,946)
Net income	2,570	1,566	3,999	—	8,135	—	8,135	
Changes in unrealized gains (losses) related to available-for-sale securities	—	(134	) (931	) —	(1,065	) —	(1,065)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	87	—	87	—	87	
Changes in defined benefit plans	(8	) (2	) (3	) —	(13	) —	(13)
Total other comprehensive income (loss), net of taxes	(8	) (136	) (847	) —	(991	) —	(991)
Comprehensive income	\$2,562	\$1,430	\$3,152	\$—	\$7,144	\$—	\$7,144	
Referenced footnote is included after the YTD 2017 table.								

Freddie Mac Form 10-Q 130

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 13

3Q 2017

(In millions)	Single-family Guarantee	Multifamily	Capital Markets	All Other Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	\$—	\$342	\$804	\$—	\$1,146	\$2,343
Guarantee fee income ⁽¹⁾	1,581	170	—	—	1,751	(1,582)
Benefit (provision) for credit losses	(826)	)(22)	)—	—	(848)	)132
Net impairment of available-for-sale securities recognized in earnings	—	—	50	—	50	(51)
Derivative gains (losses)	(2)	)22	(324)	)—	(304)	)(374
Gains (losses) on trading securities	—	(47)	)(26)	)—	(73))—
Gains (losses) on loans	—	(84)	)—	—	(84)	)287
Other non-interest income (loss)	405	314	5,757	—	6,476	(622)
Administrative expense	(353)	)(98)	)(73)	)—	(524))—
REO operations expense	(38)	)—	—	—	(38)	)3
Other non-interest expense	(348)	)(11)	)(3)	)—	(362)	)(136
Income tax expense	(164)	)(212)	)(2,143)	)—	(2,519))—
Net income	255	374	4,042	—	4,671	—
Changes in unrealized gains (losses) related to available-for-sale securities	—	(4)	)(43)	)—	(47))—
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	26	—	26	—
Changes in defined benefit plans	—	—	—	—	—	—
Total other comprehensive income (loss), net of taxes	—	(4)	)(17)	)—	(21))—
Comprehensive income	\$255	\$370	\$4,025	\$—	\$4,650	\$—

Referenced footnote is included after the next table.

YTD 2017

(In millions)	Single-family Guarantee	Multifamily	Capital Markets	All Other Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	\$—	\$905	\$2,608	\$—	\$3,513	\$7,150
Guarantee fee income ⁽¹⁾	4,505	483	—	—	4,988	(4,512)
Benefit (provision) for credit losses	(775)	(10)	—	—	(785)	607
Net impairment of available-for-sale securities recognized in earnings	—	(4)	194	—	190	(207)
Derivative gains (losses)	(34)	(31)	(757)	—	(822)	(1,254)
Gains (losses) on trading securities	—	(62)	(207)	—	(269)	—
Gains (losses) on loans	—	(75)	—	—	(75)	485
Other non-interest income (loss)	1,115	972	6,924	—	9,011	(1,981)

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Administrative expense	(1,018)	(288)	(242)	—	(1,548)	—	(1,548)
REO operations expense	(138)	—	—	—	(138)	10	(128)
Other non-interest expense	(1,001)	(44)	(8)	—	(1,053)	(298)	(1,351)
Income tax (expense) benefit	(911)	(634)	(2,921)	—	(4,466)	—	(4,466)
Net income (loss)	1,743	1,212	5,591	—	8,546	—	8,546
Changes in unrealized gains (losses) related to available-for-sale securities	—	65	181	—	246	—	246
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	81	—	81	—	81
Changes in defined benefit plans	(2)	—	(1)	—	(3)	—	(3)
Total other comprehensive income (loss), net of taxes	(2)	65	261	—	324	—	324
Comprehensive income	\$1,741	\$1,277	\$5,852	\$—	\$8,870	\$—	\$8,870

(1) Guarantee fee income is included in other income (loss) on our GAAP condensed consolidated statements of comprehensive income.

NOTE 14

Concentration of Credit and Other Risks

Single-Family Credit Guarantee Portfolio

The table below summarizes the concentration by loan portfolio and geographic area of the approximately \$1.9 trillion and \$1.8 trillion UPB of our single-family credit guarantee portfolio at September 30, 2018 and December 31, 2017, respectively. See Note 4 and Note 7 for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

	September 30, 2018			December 31, 2017			Percent of Credit Losses		
	Percent of Portfolio	Delinquency Rate	Region	Percent of Portfolio	Delinquency Rate	Region	YTD 2018	YTD 2017	
Core single-family loan portfolio	81	%0.22	%	78	%0.35	%	12	%3	%
Legacy and relief refinance single-family loan portfolio	19	2.01		22	2.59		88	97	
Total	100	%0.73		100	%1.08		100	%100	%
Region ⁽¹⁾									
West	30	%0.39		30	%0.47		17	%27	%
Northeast	24	1.01		25	1.24		40	34	
North Central	16	0.65		16	0.81		18	16	
Southeast	16	0.98		16	1.95		18	19	
Southwest	14	0.60		13	0.98		7	4	
Total	100	%0.73		100	%1.08		100	%100	%
State ⁽²⁾									
New York	5	%1.47		5	%1.74		12	%8	%
New Jersey	3	1.34		3	1.78		10	9	
Illinois	5	0.90		5	1.13		9	9	
Florida	6	1.24		6	3.33		10	12	
California	18	0.34		18	0.41		10	18	
All other	63	0.66		63	0.91		49	44	
Total	100	%0.73	%	100	%1.08	%	100	%100	%

Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, (1)MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(2)States presented based on those with the highest percentage of credit losses during YTD 2018.

Credit Performance of Certain Higher Risk Single-Family Loan Categories

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between their prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we discontinued new purchases of loans with lower documentation standards beginning March 1, 2009, we continued to purchase certain amounts of these loans in cases where the loan was either:

- n Purchased pursuant to a previously issued other mortgage-related guarantee;
- n Part of our relief refinance initiative; or
- n In another refinance loan initiative and the pre-existing loan (including Alt-A loans) 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 Alt-A in the table below 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.

Although we do not categorize single-family loans we purchase or guarantee as prime or subprime, we recognize that there are a number of loan types with certain characteristics that indicate a higher degree of credit risk.

For example, a borrower's credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.

Presented below is a summary of the serious delinquency rates of certain higher-risk categories (based on characteristics of the loan at origination) of loans in our single-family credit guarantee portfolio. The table includes a presentation of each higher-risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Loans with a combination of these attributes will have an even higher risk of delinquency than those with an individual attribute.

(Percentage of portfolio based on UPB)	Percentage of Portfolio ⁽¹⁾		Serious Delinquency Rate ⁽¹⁾			
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Interest-only	1 %	1 %	3.72 %	4.97 %		
Alt-A	1	1	4.40	5.62		
Original LTV ratio greater than 90% ⁽²⁾	17	17	1.08	1.70		
Lower credit scores at origination (less than 620)	2	2	4.68	6.34		

(1)Excludes loans underlying certain other securitization products for which data was not available.

(2)Includes HARP loans, which we purchase as part of our participation in the MHA Program.

Sellers and Servicers

Sellers

We acquire a significant portion of our single-family and multifamily loan purchase volume from several large sellers. The tables below summarize the concentration of single-family and multifamily sellers who provided 10% or more of our purchase volume.

Single-family Sellers	YTD	YTD
	2018	2017
Wells Fargo Bank, N.A.	12 %	16 %
Other top 10 sellers	37	37
Top 10 single-family sellers	49 %	53 %

Multifamily Sellers	YTD	YTD
	2018	2017
CBRE Capital Markets, Inc.	19 %	17 %
Berkadia Commercial Mortgage LLC	12	9
Holliday Fenoglio Fowler, L.P.	9	10
Other top 10 sellers	38	42
Top 10 multifamily sellers	78 %	78 %

In recent years, there has been a shift in our single-family purchase volume from depository institutions to non-depository and smaller depository financial institutions. Some of these non-depository sellers have grown rapidly in recent years, and we purchase a significant share of our loans from them. Our top five non-depository sellers provided approximately 22% and 20% of our single-family purchase volume during YTD 2018 and YTD 2017, respectively.

Servicers

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The tables below summarize the concentration of single-family and multifamily servicers who serviced 10% or more of our single-family credit guarantee portfolio and our multifamily mortgage portfolio, excluding loans underlying multifamily securitizations where we are not in first loss position, primarily K Certificates and SB Certificates.

Single-family Servicers	September		December	
	30,		31,	
	2018 ⁽¹⁾		2017 ⁽¹⁾	
Wells Fargo Bank, N.A.	18	%	18	%
Other top 10 servicers	39		40	
Top 10 single-family servicers	57	%	58	%

(1) Percentage of servicing volume is based on the total single-family credit guarantee portfolio, excluding loans where we do not exercise control over the associated servicing.

Multifamily Servicers	September		December	
	30, 2018		31, 2017	
Wells Fargo Bank, N.A.	16	%	16	%
CBRE Capital Markets, Inc.	14		12	
Berkadia Commercial Mortgage LLC	9		11	
Other top 10 servicers	36		36	
Top 10 multifamily servicers	75	%	75	%

In recent years, there has been a shift in our single-family servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our loans. As of September 30, 2018 and December 31, 2017, approximately 17% and 15%, respectively, of our single-family credit guarantee portfolio, excluding loans where we do not exercise control over the associated servicing, was serviced by our top five non-depository servicers. We routinely monitor the performance of our largest non-depository servicers.

Mortgage Insurers

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our allowance for credit losses. See Note 4 for additional information. As of September 30, 2018, mortgage insurers provided coverage with maximum loss limits of \$94.0 billion, for \$366.8 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under both primary and pool insurance.

The table below summarizes the concentration of mortgage insurer counterparties who provided 10% or more of our overall mortgage insurance coverage. On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Regulatory and other approvals of the acquisition are still pending. Genworth Mortgage Insurance Corporation is a subsidiary of Genworth Financial, Inc.

Mortgage Insurer	Credit Rating ⁽¹⁾	Mortgage Insurance Coverage ⁽²⁾	
		September 30, 2018	December 31, 2017
Arch Mortgage Insurance Company	A-	24 %	24 %
Radian Guaranty Inc.	BBB	21	21
Mortgage Guaranty Insurance Corporation	BBB	19	19
Genworth Mortgage Insurance Corporation	BB+	15	15
Essent Guaranty, Inc.	BBB+	13	12
Total		92 %	91 %

(1) Ratings are for the corporate entity to which we have the greatest exposure. Latest rating available as of September 30, 2018. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

(2) Coverage amounts may include coverage provided by affiliates and subsidiaries of the counterparty.

We received proceeds of \$0.2 billion and \$0.3 billion during YTD 2018 and YTD 2017, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of \$0.1 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of both September 30, 2018 and December 31, 2017. The balance of these receivables, net of an associated allowance for credit losses, was approximately \$0.1 billion at both September 30, 2018 and December 31, 2017.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both under the control of their state regulators and are in run-off. A substantial portion of their claims is recorded by us as deferred payment obligations. As of both September 30, 2018 and December 31, 2017, we had cumulative unpaid deferred payment obligations of \$0.5 billion from these insurers. We recognized an allowance for credit losses for all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.

Cash and Other Investments Counterparties

We are exposed to the non-performance of counterparties relating to cash and other investments (including non-mortgage-related securities and cash equivalents) transactions, including those entered into on behalf of our securitization trusts. Our policies require that the counterparty be evaluated using our internal counterparty rating model prior to our entering into such transactions. We monitor the financial strength of our counterparties to these transactions and may use collateral maintenance requirements to manage our exposure to individual counterparties. The permitted term and dollar limits for each of these transactions are also based on the counterparty's financial strength.

Our cash and other investments (including non-mortgage-related securities and cash equivalents) counterparties are primarily major financial institutions, including commercial banks, other GSEs, Treasury, the Federal Reserve Bank of New York, the Government Securities Division of Fixed Income Clearing Corporation (GSD/FICC), highly-rated supranational institutions and government money market funds. As of September 30, 2018 and December 31, 2017, \$2.8 billion and \$0.2 billion of our securities purchased under agreements to resell were used to provide financing to investors in Freddie Mac securities to increase liquidity and expand the investor base for those securities. These transactions differ from the securities purchased under agreements to resell that we use for liquidity purposes as the counterparties we face may not be major financial institutions and we are exposed to the counterparty risk of these institutions. As of September 30, 2018 and December 31, 2017, including amounts related to our consolidated VIEs, the balance in our other investments and cash portfolio was \$82.8 billion and \$89.8 billion, respectively. The balances consist primarily of cash and securities purchased under agreements to resell invested with counterparties, U.S. Treasury securities, cash deposited with the Federal Reserve Bank of New York, cash advanced to lenders and other secured lending. As of September 30, 2018, all of our securities purchased under agreements to resell were fully collateralized.

NOTE 15

Fair Value Disclosures

The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis.

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The levels of the fair value hierarchy are defined as follows in priority order:

n Level 1 - inputs to the valuation techniques are based on quoted prices in active markets for identical assets or liabilities.

n Level 2 - inputs to the valuation techniques are based on observable inputs other than quoted prices in active markets for identical assets or liabilities.

n Level 3 - one or more inputs to the valuation technique are unobservable and significant to the fair value measurement.

We use quoted market prices and valuation techniques that seek to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs. Our inputs are based on the assumptions a market participant would use in valuing the asset or liability. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The tables below present our assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	September 30, 2018				Total
	Level 1	Level 2	Level 3	Netting Adjustment ⁽¹⁾	
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$24,655	\$4,513	\$—	\$29,168
Other agency	—	1,865	40	—	1,905
Non-agency RMBS	—	—	1,814	—	1,814
Non-agency CMBS	—	21	1,578	—	1,599
Obligations of states and political subdivisions	—	—	243	—	243
Total available-for-sale securities, at fair value	—	26,541	8,188	—	34,729
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	9,790	2,109	—	11,899
Other agency	—	2,714	17	—	2,731
All other	—	20	1,072	—	1,092
Total mortgage-related securities	—	12,524	3,198	—	15,722
Non-mortgage-related securities	22,691	2,788	—	—	25,479
Total trading securities, at fair value	22,691	15,312	3,198	—	41,201
Total investments in securities	22,691	41,853	11,386	—	75,930
Mortgage loans:					
Held-for-sale, at fair value	—	18,222	—	—	18,222
Derivative assets, net:					
Interest-rate swaps	—	2,742	—	—	2,742
Option-based derivatives	—	3,661	—	—	3,661
Other	—	144	21	—	165
Subtotal, before netting adjustments	—	6,547	21	—	6,568
Netting adjustments ⁽¹⁾	—	—	—	(6,099)	(6,099)
Total derivative assets, net	—	6,547	21	(6,099)	469
Other assets:					
Guarantee asset, at fair value	—	—	3,443	—	3,443
Non-derivative held-for-sale purchase commitments, at fair value	—	174	—	—	174
All other, at fair value	—	—	90	—	90
Total other assets	—	174	3,533	—	3,707
Total assets carried at fair value on a recurring basis	\$22,691	\$66,796	\$14,940	(\$6,099)	\$98,328
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$7	\$728	\$—	\$735
Other debt, at fair value	—	4,460	134	—	4,594
Derivative liabilities, net:					
Interest-rate swaps	—	4,055	—	—	4,055
Option-based derivatives	—	96	—	—	96
Other	—	148	108	—	256
Subtotal, before netting adjustments	—	4,299	108	—	4,407
Netting adjustments ⁽¹⁾	—	—	—	(4,112)	(4,112)
Total derivative liabilities, net	—	4,299	108	(4,112)	295

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Other liabilities:

Non-derivative held-for-sale purchase commitments, at fair value	—	34	—	—	34
Total liabilities carried at fair value on a recurring basis	\$—	\$8,800	\$970	(\$4,112	) \$5,658

Referenced footnote is included after the next table.

Freddie Mac Form 10-Q 138

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	December 31, 2017			Netting Adjustment ⁽¹⁾	Total
	Level 1	Level 2	Level 3		
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$30,415	\$5,055	\$—	\$35,470
Other agency	—	2,007	46	—	2,053
Non-agency RMBS	—	—	3,933	—	3,933
Non-agency CMBS	—	87	1,697	—	1,784
Obligations of states and political subdivisions	—	—	357	—	357
Total available-for-sale securities, at fair value	—	32,509	11,088	—	43,597
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	11,393	842	—	12,235
Other agency	—	3,565	9	—	3,574
All other	—	27	2,066	—	2,093
Total mortgage-related securities	—	14,985	2,917	—	17,902
Non-mortgage-related securities	20,159	2,660	—	—	22,819
Total trading securities, at fair value	20,159	17,645	2,917	—	40,721
Total investments in securities	20,159	50,154	14,005	—	84,318
Mortgage loans:					
Held-for-sale, at fair value	—	20,054	—	—	20,054
Derivative assets, net:					
Interest-rate swaps	—	4,262	—	—	4,262
Option-based derivatives	—	4,524	—	—	4,524
Other	—	44	8	—	52
Subtotal, before netting adjustments	—	8,830	8	—	8,838
Netting adjustments ⁽¹⁾	—	—	—	(8,463)	(8,463)
Total derivative assets, net	—	8,830	8	(8,463)	375
Other assets:					
Guarantee asset, at fair value	—	—	3,171	—	3,171
Non-derivative held-for-sale purchase commitments, at fair value	—	137	—	—	137
All other, at fair value	—	—	45	—	45
Total other assets	—	137	3,216	—	3,353
Total assets carried at fair value on a recurring basis	\$20,159	\$79,175	\$17,229	(\$8,463)	\$108,100
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$9	\$630	\$—	\$639
Other debt, at fair value	—	5,023	137	—	5,160
Derivative liabilities, net:					
Interest-rate swaps	—	7,239	—	—	7,239
Option-based derivatives	—	121	—	—	121
Other	—	64	65	—	129
Subtotal, before netting adjustments	—	7,424	65	—	7,489
Netting adjustments ⁽¹⁾	—	—	—	(7,220)	(7,220)
Total derivative liabilities, net	—	7,424	65	(7,220)	269

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Other liabilities:

Non-derivative held-for-sale purchase commitments, at fair value	—	4	—	—	4
Total liabilities carried at fair value on a recurring basis	\$—	\$12,460	\$832	(\$7,220	) \$6,072

(1) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

Freddie Mac Form 10-Q 139

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

Level 3 Fair Value Measurements

The tables below present a reconciliation of all assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3), including transfers into and out of Level 3. The tables also present gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our condensed consolidated statements of comprehensive income for Level 3 assets and liabilities. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period.

(In millions)	3Q 2018											
	Balance, July 1, 2018	Realized and unrealized gains (losses) Included in earnings	Unrealized gains (losses) Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2018	Unrealized gains (losses) still held ⁽³⁾
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$4,380	(\$1)	(\$29)	(\$30)	\$684	\$—	(\$237)	(\$193)	\$—	(\$91)	\$4,513	(\$2)
Other agency	270	—	—	—	—	—	—	(2)	—	(228)	40	—
Non-agency RMBS	2,226	383	(65)	318	—	—	(660)	(70)	—	—	1,814	10
Non-agency CMBS	1,624	(2)	(39)	(41)	—	—	—	(5)	—	—	1,578	(2)
Obligations of states and political subdivisions	309	—	(1)	(1)	—	—	—	(65)	—	—	243	—
Total available-for-sale mortgage-related securities	8,809	380	(134)	246	684	—	(897)	(335)	—	(319)	8,188	6
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	2,428	(128)	—	(128)	623	—	(693)	(13)	—	(108)	2,109	(128)
Other agency	17	(1)	—	(1)	—	—	—	1	—	—	17	(1)
All other	1,284	(12)	—	(12)	—	—	(182)	(18)	—	—	1,072	(8)
Total trading mortgage-related securities	3,729	(141)	—	(141)	623	—	(875)	(30)	—	(108)	3,198	(137)
Other assets:												
Guarantee asset	3,363	(28)	—	(28)	—	255	—	(147)	—	—	3,443	(28)
All other, at fair value	103	1	—	1	(3)	(11)	—	—	—	—	90	(4)
Total other assets	\$3,466	(\$27)	\$—	(\$27)	(\$3)	\$244	\$—	(\$147)	\$—	\$—	\$3,533	(\$32)

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

	Balance, July 1, 2018	Realized and unrealized (gains) losses Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2018	Unrealized (gains) losses still held ⁽³⁾
Liabilities												
Debt securities of consolidated trusts held by third parties, at fair value	\$629	(\$1)	\$—	(\$1)	\$—	\$100	\$—	\$—	\$—	\$—	\$728	(\$1)
Other debt, at fair value	135	—	—	—	—	—	—	(1)	—	—	134	—
Net derivatives ⁽²⁾	42	8	—	8	—	41	—	(4)	—	—	87	3
Other liabilities:												
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—

Referenced footnotes are included after the prior period tables.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	YTD 2018											
	Balance, January 1, 2018	Realized and unrealized gains (losses) Included in earnings	Realized and unrealized losses Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2018	Unrealized gains (losses) still held ⁽³⁾
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$5,055	(\$7)	(\$169)	(\$176)	\$684	\$—	(\$293)	(\$757)	\$—	\$—	\$4,513	(\$7)
Other agency	46	—	(1)	(1)	—	—	—	(5)	—	—	40	—
Non-agency RMBS	3,933	876	(534)	342	—	—	(2,160)	(301)	—	—	1,814	31
Non-agency CMBS	1,697	(6)	(98)	(104)	—	—	—	(15)	—	—	1,578	(6)
Obligations of states and political subdivisions	357	—	(4)	(4)	—	—	—	(110)	—	—	243	—
Total available-for-sale mortgage-related securities	11,088	863	(806)	57	684	—	(2,453)	(1,188)	—	—	8,188	18
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	842	(304)	—	(304)	1,027	—	—	(3)	579	(32)	2,109	(299)
Other agency	9	(2)	—	(2)	30	—	(21)	1	—	—	17	(2)
All other	2,066	(79)	—	(79)	—	—	(863)	(52)	—	—	1,072	(63)
Total trading mortgage-related securities	2,917	(385)	—	(385)	1,057	—	(884)	(54)	579	(32)	3,198	(364)
Other assets:												
Guarantee asset	3,171	(48)	—	(48)	—	745	—	(425)	—	—	3,443	(48)
All other, at fair value	45	31	—	31	38	(24)	—	—	—	—	90	11
Total other assets	\$3,216	(\$17)	\$—	(\$17)	\$38	\$721	\$—	(\$425)	\$—	\$—	\$3,533	(\$37)
Liabilities												
	\$630	(\$2)	\$—	(\$2)	\$—	\$100	\$—	\$—	\$—	\$—	\$728	(\$2)

Debt securities of
consolidated trusts held
by third parties, at fair
value

Other debt, at fair value	137	—	—	—	—	—	—	(3	)	—	—	134	—
Net derivatives ⁽²⁾	57	28	—	28	—	15	—	(13	)	—	—	87	15
Other liabilities:													
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—	—

Referenced footnotes are included after the prior period tables.

Freddie Mac Form 10-Q 141

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	3Q 2017											
	Balance, July 1, 2017	Realized and unrealized gains (losses) Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2017	Unrealized gains (losses) still held ⁽³⁾
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$5,686	(\$4)	\$82	\$78	\$141	\$—	\$—	(\$325)	\$—	\$—	\$5,580	(\$4)
Other agency	51	—	—	—	—	—	—	(3)	—	—	48	—
Non-agency RMBS	8,639	854	(128)	726	—	—	(3,952)	277	—	—	5,135	38
Non-agency CMBS	3,470	1	5	6	—	—	—	(7)	—	—	3,469	1
Obligations of states and political subdivisions	481	—	(1)	(1)	—	—	—	(78)	—	—	402	—
Total available-for-sale mortgage-related securities	18,327	851	(42)	809	141	—	(3,952)	690	—	—	14,634	35
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	888	(45)	—	(45)	587	—	—	(4)	—	(396)	1,030	(43)
Other agency	10	(1)	—	(1)	259	—	—	—	—	—	268	(1)
All other	108	(2)	—	(2)	176	—	—	(11)	—	—	271	(2)
Total trading mortgage-related securities	1,006	(48)	—	(48)	1,022	—	—	(15)	—	(396)	1,569	(46)
Other assets:												
Guarantee asset	2,480	(1)	—	(1)	—	265	—	(123)	—	—	2,621	(1)
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—
Total other assets	\$2,480	(\$1)	\$—	(\$1)	\$—	\$265	\$—	(\$123)	\$—	\$—	\$2,621	(\$1)
Liabilities												
Debt securities of consolidated trusts held by third parties, at fair value												
Other debt, at fair value	89	—	—	—	—	—	—	—	—	—	89	—
Net derivatives ⁽²⁾	68	2	—	2	—	(1)	—	(2)	—	—	67	(2)

Other Liabilities:

All other, at fair value 17 (12) — (12) 5 — 13 — — — 23 (12)

Referenced footnotes are included after the following table.

Freddie Mac Form 10-Q 142

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	YTD 2017											
	Balance, January 1, 2017	Realized and unrealized gains (losses) Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2017	Unrealized gains (losses) still held ⁽³⁾
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$9,847	(\$6)	\$117	\$111	\$635	\$—	(\$907)	(\$1,027)	\$17	(\$3,096)	\$5,580	(\$15)
Other agency	66	—	(1)	(1)	—	—	—	(9)	—	(8)	48	—
Non-agency RMBS	11,797	1,285	(68)	1,217	—	—	(6,649)	(1,230)	—	—	5,135	111
Non-agency CMBS	3,366	4	128	132	—	—	—	(29)	—	—	3,469	4
Obligations of states and political subdivisions	665	1	(2)	(1)	—	—	—	(262)	—	—	402	—
Total available-for-sale mortgage-related securities	25,741	1,284	174	1,458	635	—	(7,556)	(2,557)	17	(3,104)	14,634	100
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	1,095	(12)	—	(12)	889	—	(592)	(9)	14	(246)	1,030	(92)
Other agency	12	(3)	—	(3)	259	—	—	—	—	—	268	(3)
All other	113	—	—	—	176	—	—	(18)	—	—	271	—
Total trading mortgage-related securities	1,220	(12)	—	(12)	1,324	—	(592)	(27)	14	(246)	1,569	(95)
Other assets:												
Guarantee asset	2,299	(2)	—	(2)	—	677	—	(353)	—	—	2,621	(2)
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—
Total other assets	\$2,299	(\$2)	\$—	(\$2)	\$—	\$677	\$—	(\$353)	\$—	\$—	\$2,621	(\$2)
(In millions)	YTD 2017											
	Balance, January 1, 2017	Realized and unrealized gains (losses) Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽¹⁾	Transfers out of Level 3 ⁽¹⁾	Balance, September 30, 2017	Unrealized gains (losses) still held ⁽³⁾

earnings comprehensive
income

Liabilities

Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$1	\$—	\$1	\$—	\$530	\$—	\$—	\$—	\$—	\$531	\$1			
Other debt, at fair value	95	—	—	—	—	—	—	(6	)	—	—	89	—	
Net derivatives ⁽²⁾	50	36	—	36	—	—	—	(19	)	—	—	67	19	
Other Liabilities:															
All other, at fair value	(2)	(5)	—	(5)	17	—	13	—	—	23	(5)

Transfers out of Level 3 during 3Q 2018 and YTD 2018 and 3Q 2017 and YTD 2017 consisted primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services. Certain Freddie Mac securities are classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during 3Q 2018 and YTD 2018 consisted primarily of certain mortgage-related securities due to a decrease in market activity and the availability of relevant price quotes from dealers and third-party pricing services.

(1) Amounts are the net of derivative assets and liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

(2) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains and losses related to assets and liabilities classified as Level 3 that were still held at September 30, 2018 and September 30, 2017, respectively. Included in these amounts are other-than temporary impairments recorded on available-for-sale securities.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

The tables below provide valuation techniques, the range and the weighted average of significant unobservable inputs for Level 3 assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis.

	September 30, 2018		Unobservable Inputs		Weighted Average
(In millions, except for certain unobservable inputs as shown)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	
Recurring fair value measurements					
Assets					
Investments in securities					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	\$4,354	Discounted cash flows	OAS	(2) - 325 bps	67 bps
	159	Other			
Total Freddie Mac	4,513				
Other agency	40	Other			
Non-agency RMBS	1,762	Median of external sources	External pricing sources	\$67.5 - \$73.7	\$70.2
	52	Other			
Total non-agency RMBS	1,814				
Non-agency CMBS	1,578	Single external source	External pricing sources	\$101.1 - \$102.7	\$102.0
Obligations of states and political subdivisions	240	Single external source	External pricing sources	\$94.2 - \$108.4	\$100.5
	3	Other			
Total obligations of states and political subdivisions	243				
Total available-for-sale mortgage-related securities	8,188				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	922	Discounted cash flows	OAS	(21,945) - 6,641 bps	(89) bps
	871	Single external source	External pricing sources	\$0.0 - \$97.2	\$32.8
	316	Other			
Total Freddie Mac	2,109				
Other agency	17	Other			
All other	1,071	Single external source	External pricing sources	\$6.1 - \$105.9	\$83.4
	1	Other			
Total all other	1,072				
Total trading mortgage-related securities	3,198				
Total investments in securities	\$11,386				
Other assets:					
Guarantee asset, at fair value	\$3,206	Discounted cash flows	OAS	15 - 198 bps	41 bps

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

	237	Other		
Total Guarantee asset, at fair value	3,443			
All other at fair value	90	Other		
Total other assets	3,533			
Liabilities				
Debt securities of consolidated trusts held by third parties, at fair value	728	Single external source	External Pricing Sources	\$96.5 - \$100.5\$100.0
Other debt, at fair value	134	Single External Source	External Pricing Sources	\$99.9 - \$100.0\$100.0
Net derivatives	87	Other		

Freddie Mac Form 10-Q 144

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions, except for certain unobservable inputs as shown)	December 31, 2017		Unobservable Inputs		Weighted Average
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	
Recurring fair value measurements					
Assets					
Investments in securities:					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	\$4,873	Discounted cash flows	OAS	27 - 501 bps	68 bps
	182	Other			
Total Freddie Mac	5,055				
Other agency	46	Other			
Non-agency RMBS	3,665	Median of external sources	External pricing sources	\$75.6 - \$80.8	\$77.7
	268	Other			
Total non-agency RMBS	3,933				
Non-agency CMBS	1,696	Single external source	External pricing sources	\$108.4 - \$108.9	\$108.7
	1	Other			
Total non-agency CMBS	1,697				
Obligations of states and political subdivisions	334	Median of external sources	External pricing sources	\$101.2 - \$101.6	\$101.4
	23	Other			
Total obligations of states and political subdivisions	357				
Total available-for-sale mortgage-related securities	11,088				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	582	Discounted cash flows	OAS	(8,905) - 27,202 bps	(88) bps
	243	Risk metrics	Effective duration	0.00 - 55.93 years	11.76 years
	17	Other			
Total Freddie Mac	842				
Other agency	9	Other			
All other	2,065	Single external source	External pricing sources	\$6.4 - \$113.2	\$98.0
	1	Other			
Total all other	2,066				
Total trading mortgage-related securities	2,917				
Total investments in securities	\$14,005				
Other assets:					
Guarantee asset, at fair value	\$3,171	Discounted cash flows	OAS	17 - 198 bps	45 bps
All other at fair value	45	Other			

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total other assets	3,216			
Liabilities				
Debt securities of consolidated trusts held by third parties, at fair value	630	Single external source	External Pricing \$99.2 - Sources \$100.2	\$100.1
Other debt, at fair value	137	Other		
Net derivatives	57	Other		

Freddie Mac Form 10-Q 145

Assets Measured at Fair Value on a Non-recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis after our initial recognition. These adjustments usually result from the application of lower-of-cost-or-fair-value accounting or measurement of impairment based on the fair value of the underlying collateral.

The table below presents assets measured on our condensed consolidated balance sheets at fair value on a non-recurring basis.

(In millions)	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	12	3		12	3	
Assets measured at fair value on a non-recurring basis:						
Mortgage loans ⁽¹⁾	\$42	\$9,843	\$9,885	\$494	\$6,199	\$6,693

(1) Includes loans that are classified as held-for-investment and have been measured for impairment based on the fair value of the underlying collateral and held-for-sale loans where the fair value is below cost.

The tables below provide valuation techniques, the range and the weighted average of significant unobservable inputs for Level 3 assets and liabilities measured on our condensed consolidated balance sheets at fair value on a non-recurring basis. Certain of the fair values in the tables below were not obtained as of the period end, but were obtained during the period.

(In millions, except for certain unobservable inputs as shown)	September 30, 2018		Unobservable Inputs		
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	\$9,843				
		Internal model	Historical sales proceeds	\$3,000 - \$858,000	\$179,740
		Internal model	Housing sales index	43 - 365 bps	106 bps
		Median of external sources	External pricing sources	\$35.8 - \$94.6	\$82.5

(In millions, except for certain unobservable inputs as shown)	December 31, 2017		Unobservable Inputs		
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	\$6,199				
		Internal model	Historical sales proceeds	\$3,000 - \$899,000	\$176,558
		Internal model	Housing sales index	43 - 394 bps	102 bps
		Median of external sources	External pricing sources	\$36.5 - \$94.9	\$80.9

Fair Value of Financial Instruments

The tables below present the carrying value and estimated fair value of our financial instruments. For certain types of financial instruments, such as cash and cash equivalents, securities purchased under agreements to resell, advances to lenders and other secured lending, certain debt and other liabilities, the carrying value on our GAAP balance sheets approximates fair value, as these assets and liabilities are short-term in nature and have limited market value volatility.

		September 30, 2018					
	GAAP	GAAP	Fair Value				
(In millions)	Measurement Category ⁽¹⁾	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustments ⁽²⁾	Total
Financial Assets							
Cash and cash equivalents ⁽³⁾	Amortized cost	\$7,038	\$7,038	\$—	\$—	\$—	\$7,038
Securities purchased under agreements to resell	Amortized cost	48,540	—	48,540	—	—	48,540
Investments in securities:							
Available-for-sale, at fair value	FV - OCI	34,729	—	26,541	8,188	—	34,729
Trading, at fair value	FV - NI	41,201	22,691	15,312	3,198	—	41,201
Total investments in securities		75,930	22,691	41,853	11,386	—	75,930
Mortgage loans:							
Loans held by consolidated trusts		1,814,776	—	1,637,198	128,798	—	1,765,996
Loans held by Freddie Mac		87,652	—	31,627	58,260	—	89,887
Total mortgage loans	Various ⁽⁴⁾	1,902,428	—	1,668,825	187,058	—	1,855,883
Derivative assets, net	FV - NI	469	—	6,547	21	(6,099)	469
Guarantee asset	FV - NI	3,443	—	—	3,454	—	3,454
Non-derivative purchase commitments, at fair value	FV - NI	174	—	174	17	—	191
Advances to lenders and other secured lending	Amortized cost	1,808	—	425	1,137	—	1,562
Total financial assets		\$2,039,830	\$29,729	\$1,766,364	\$203,073	(\$6,099)	\$1,993,067
Financial Liabilities							
Debt, net:							
Debt securities of consolidated trusts held by third parties		\$1,765,045	\$—	\$1,708,191	\$2,219	\$—	\$1,710,410
Other debt		276,945	—	275,968	3,655	—	279,623
Total debt, net	Various ⁽⁵⁾	2,041,990	—	1,984,159	5,874	—	1,990,033
Derivative liabilities, net	FV - NI	295	—	4,299	108	(4,112)	295
Guarantee obligation	Amortized cost	3,347	—	—	3,271	—	3,271
Non-derivative purchase commitments, at fair value	FV - NI	34	—	34	40	—	74
Other liabilities	Amortized cost	34	—	—	34	—	34
Total financial liabilities		\$2,045,700	\$—	\$1,988,492	\$9,327	(\$4,112)	\$1,993,707

(1)FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

(2)Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

(3)

The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

- (4) As of September 30, 2018, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NII were \$1.9 trillion, \$18.7 billion and \$18.2 billion, respectively.
- (5) As of September 30, 2018, the GAAP carrying amounts measured at amortized cost and FV - NII were \$2.0 trillion and \$5.3 billion, respectively.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	GAAP Measurement Category ⁽¹⁾	December 31, 2017					Netting Adjustments ⁽²⁾	Total
		GAAP Carrying Amount	Level 1	Level 2	Level 3			
Financial Assets								
Cash and cash equivalents ⁽³⁾	Amortized cost	\$9,811	\$9,811	\$—	\$—	\$—		\$9,811
Securities purchased under agreements to resell	Amortized cost	55,903	—	55,903	—	—		55,903
Investments in securities:								
Available-for-sale, at fair value	FV - OCI	43,597	—	32,509	11,088	—		43,597
Trading, at fair value	FV - NI	40,721	20,159	17,645	2,917	—		40,721
Total investments in securities		84,318	20,159	50,154	14,005	—		84,318
Mortgage loans:								
Loans held by consolidated trusts		1,774,286	—	1,635,137	145,911	—		1,781,048
Loans held by Freddie Mac		96,931	—	32,169	67,932	—		100,101
Total mortgage loans	Various ⁽⁴⁾	1,871,217	—	1,667,306	213,843	—		1,881,149
Derivative assets, net	FV - NI	375	—	8,830	8	(8,463	)	375
Guarantee asset	FV - NI	3,171	—	—	3,359	—		3,359
Non-derivative purchase commitments, at fair value	FV - NI	137	—	137	55	—		192
Advances to lenders and other secured lending	Amortized cost	1,269	—	473	796	—		1,269
Total financial assets		\$2,026,201	\$29,970	\$1,782,803	\$232,066	(\$8,463	)	\$2,036,376
Financial Liabilities								
Debt, net:								
Debt securities of consolidated trusts held by third parties								
		\$1,720,996	\$—	\$1,721,091	\$2,679	\$—		\$1,723,770
Other debt		313,634	—	313,688	3,892	—		317,580
Total debt, net	Various ⁽⁵⁾	2,034,630	—	2,034,779	6,571	—		2,041,350
Derivative liabilities, net	FV - NI	269	—	7,424	65	(7,220	)	269
Guarantee obligation	Amortized cost	3,081	—	—	3,742	—		3,742
Non-derivative purchase commitments, at fair value	FV - NI	4	—	4	15	—		19
Total financial liabilities		\$2,037,984	\$—	\$2,042,207	\$10,393	(\$7,220	)	\$2,045,380

(1) FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

(2) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

(3) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

(4) As of December 31, 2017, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NII were \$1.8 trillion, \$14.7 billion and \$20.1 billion, respectively.

(5) As of December 31, 2017, the GAAP carrying amounts measured at amortized cost and FV - NII were \$2.0 trillion and \$5.8 billion, respectively.

HARP Loans

The fair value of mortgage loans includes loans refinanced under HARP of \$19.3 billion and \$30.2 billion as of September 30, 2018 and December 31, 2017, respectively. The fair value of HARP loans reflects the total compensation that we receive for the delivery of a HARP loan, based on the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends on December 31, 2018, the beneficial pricing afforded to HARP loans may no longer be reflected in the pricing structure of our guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our loans would have decreased by \$1.4 billion and \$2.1 billion as of September 30, 2018 and December 31, 2017, respectively.

Fair Value Option

We elected the fair value option for certain multifamily held-for-sale loans, multifamily held-for-sale loan purchase commitments and certain long-term debt.

The table below presents the fair value and UPB related to certain loans and long-term debt for which we have elected the fair value option.

(In millions)	September 30, 2018			December 31, 2017		
	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities Of Consolidated Trusts Held By Third Parties ⁽¹⁾	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities Of Consolidated Trusts Held By Third Parties ⁽¹⁾
Fair value	\$18,222	\$4,594	\$728	\$20,054	\$5,160	\$630
Unpaid principal balance	18,152	4,136	730	19,762	4,666	630
Difference	\$70	\$458	(\$2)	\$292	\$494	\$—

⁽¹⁾ Does not include interest-only securities with fair value of \$7 million and \$9 million as of September 30, 2018 and December 31, 2017, respectively.

Changes in Fair Value Under the Fair Value Option Election

The table below presents the changes in fair value included in other income (loss) in our condensed consolidated statements of comprehensive income, related to items for which we have elected the fair value option.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
	Gains (Losses)	Gains (Losses)	Gains (Losses)	Gains (Losses)
Multifamily held-for-sale loans	(\$285)	(\$91)	(\$797)	(\$83)
Multifamily held-for-sale loan purchase commitments	267	271	564	826
Other debt - long term	10	58	38	(144)
Debt securities of consolidated trusts held by third parties	2	5	4	16

Changes in fair value attributable to instrument-specific credit risk were not material for 3Q 2018 and YTD 2018 and for 3Q 2017 and YTD 2017 for any assets or liabilities for which we elected the fair value option.

NOTE 16

Legal Contingencies

We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller's or servicer's eligibility to sell loans to, and/or service loans for, us. In these cases, the former seller or servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of loans. These suits typically involve claims alleging wrongful actions of sellers and servicers. Our contracts with our sellers and servicers generally provide for indemnification of Freddie Mac against liability arising from sellers' and servicers' wrongful actions with respect to loans sold to or serviced for Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable (as defined in such guidance) and the amount of the loss can be reasonably estimated.

Putative Securities Class Action Lawsuit: Ohio Public Employees Retirement System vs. Freddie Mac, Syron, Et Al.

This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007. FHFA later intervened as Conservator, and the plaintiff amended its complaint on several occasions. The plaintiff alleged, among other things, that the defendants violated federal securities laws by making false and misleading statements concerning our business, risk management, and the procedures we put into place to protect the company from problems in the mortgage industry. The plaintiff seeks unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees. In October 2013, defendants filed motions to dismiss the complaint. In October 2014, the District Court granted defendants' motions and dismissed the case in its entirety against all defendants, with prejudice. In November 2014, plaintiff filed a notice of appeal in the U.S. Court of Appeals for the Sixth Circuit. On July 20, 2016, the Court of Appeals reversed the District Court's dismissal and remanded the case to the District Court for further proceedings. On August 14, 2018, the District Court denied the plaintiff's motion for class certification. Plaintiff has requested interlocutory appeal of that decision.

At present, it is not possible for us to predict the probable outcome of this lawsuit or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matter due to the following factors, among others: the inherent uncertainty of pre-trial litigation; there has yet to be a final resolution of plaintiff's motion for class certification; and the District Court has not yet ruled upon motions for summary judgment. In particular, absent a final resolution of

whether a class will be certified, the identification of a class if one is certified, and the identification of the alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

LIBOR Lawsuit

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint in July 2013, and a second amended complaint in October 2014. In August 2015, the District Court dismissed the portion of our claim related to antitrust violations and fraud and we filed a motion for reconsideration. On March 31, 2016, the District Court granted a portion of our motion, finding personal jurisdiction over certain defendants, and denied the portion of our motion with respect to statutes of limitation for our fraud claims. Subsequently, in a related case, the U.S. Court of Appeals for the Second Circuit reversed the District Court's dismissal of certain plaintiffs' antitrust claims and remanded the case to the District Court for consideration of whether, among other things, the plaintiffs are "efficient enforcers" of the antitrust laws.

On December 20, 2016, after briefing and argument on the defendants' renewed motions to dismiss on personal jurisdiction and efficient enforcer grounds, the District Court denied defendants' motions in part and granted them in part. The District Court held that Freddie Mac is an efficient enforcer of the antitrust laws, but dismissed on personal jurisdiction grounds Freddie Mac's antitrust claims against all defendants except HSBC USA, N.A. Then, in an order issued February 2, 2017, the District Court effectively dismissed Freddie Mac's remaining antitrust claim against HSBC USA, N.A. At present, Freddie Mac's breach of contract actions against Bank of America, N.A., Barclays Bank, Citibank, N.A., Credit Suisse, Deutsche Bank, Royal Bank of Scotland and UBS AG are its only claims remaining in the District Court.

On February 23, 2018, the Second Circuit reversed the District Court's dismissal of certain plaintiffs' state law fraud and unjust enrichment claims on statutes of limitations grounds. While Freddie Mac was not a party to the appeal, this decision could have the effect of reinstating Freddie Mac's fraud claims against the above-named defendants. The Second Circuit also reversed certain aspects of the District Court's personal jurisdiction rulings and remanded with instructions to allow the named appellant to amend its complaint. On June 15, 2018, Freddie Mac filed a motion for leave to file an amended complaint, along with a proposed amended complaint.

Litigation Concerning the Purchase Agreement

Since July 2013, a number of lawsuits have been filed against us concerning the August 2012 amendment to the Purchase Agreement, which created the net worth sweep dividend provisions of the senior preferred stock. The plaintiffs in the lawsuits allege that they are holders of common stock and/or junior preferred stock issued by Freddie Mac and Fannie Mae. (For purposes of this discussion, junior preferred stock refers to the various series of preferred stock of Freddie Mac and Fannie Mae other than the senior preferred stock issued to Treasury.) It is possible that similar lawsuits will be filed in the future. The lawsuits against us are described below.

Litigation in the U.S. District Court for the District of Columbia

In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations. This case is the result of the consolidation of three putative class action lawsuits: Cacciapelle and Bareiss vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 29, 2013; American European Insurance Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 30, 2013; and Marneu Holdings, Co. vs. FHFA, Treasury, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, filed on September 18, 2013. (The Marneu case was also filed as a shareholder derivative lawsuit.) A consolidated amended complaint was filed in December 2013. In the consolidated amended complaint, plaintiffs allege, among other items, that the August 2012 amendment to the Purchase Agreement breached Freddie Mac's and Fannie Mae's respective contracts with the holders of junior preferred stock and common stock and the covenant of good faith and fair dealing inherent in such contracts. Plaintiffs sought unspecified damages, equitable and injunctive relief, and costs and expenses, including attorney and expert fees.

The Cacciapelle and American European Insurance Company lawsuits were filed purportedly on behalf of a class of purchasers of junior preferred stock issued by Freddie Mac or Fannie Mae who held stock prior to, and as of, August 17, 2012. The Marneu lawsuit was filed purportedly on behalf of a class of purchasers of junior preferred stock and purchasers of common stock issued by Freddie Mac or Fannie Mae over a not-yet-defined period of time.

Arrowood Indemnity Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, FHFA and Treasury. This case was filed on September 20, 2013. The allegations and demands made by plaintiffs in this case were generally similar to those made by the plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case described above. Plaintiffs in the Arrowood lawsuit also requested that, if injunctive relief were not granted, the Arrowood plaintiffs be awarded damages against the defendants in an amount to be determined including, but not limited to, the aggregate par value of their junior preferred stock, the total of which they stated to be approximately \$42 million.

American European Insurance Company, Cacciapelle and Miller vs. Treasury and FHFA. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on July 30, 2014. The complaint alleged that, through the August 2012 amendment to the Purchase Agreement, Treasury and FHFA breached their respective fiduciary duties to Freddie Mac, causing Freddie Mac to suffer damages. The plaintiffs asked that Freddie Mac be awarded compensatory damages and disgorgement, as well as attorneys' fees, costs and other expenses.

FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the *In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations* case and the other related cases in January 2014. Treasury filed a motion to dismiss the same day. In September 2014, the District Court granted the motions and dismissed the plaintiffs' claims. All plaintiffs appealed that decision, and on February 21, 2017, the U.S. Court of Appeals for the District of Columbia Circuit affirmed in part and remanded in part the decision granting the motions to dismiss. The Court of Appeals affirmed dismissal of all claims except certain claims seeking monetary damages for breach of contract and breach of implied duty of good faith and fair dealing. In March 2017, certain institutional and class plaintiffs filed petitions for panel rehearing with respect to certain claims. On July 17, 2017, the Court of Appeals granted the petitions for rehearing and issued a modified decision, which permitted the institutional plaintiffs to pursue the breach of contract and breach of implied duty of good faith and fair dealing claims that had been remanded. The Court of Appeals also removed language related to the standard to be applied to the implied duty claims, leaving that issue for the District Court to determine on remand. On October 16, 2017, certain institutional and class plaintiffs filed petitions for a writ of certiorari in the U.S. Supreme Court challenging whether HERA's prohibition on injunctive relief against FHFA bars judicial review of the net worth sweep dividend provisions of the August 2012 amendment to the Purchase Agreement, as well as whether HERA bars shareholders from pursuing derivative litigation where they allege the conservator faces a conflict of interest. The Supreme Court denied the petitions on February 20, 2018. On November 1, 2017, certain institutional and class plaintiffs and plaintiffs in another case in which Freddie Mac was not originally a defendant, *Fairholme Funds, Inc. v. FHFA, Treasury, and Federal National Mortgage Association*, filed proposed amended complaints in the District Court. Each of the proposed amended complaints names Freddie Mac as a defendant for breach of contract and breach of the covenant of good faith and fair dealing claims as well as for new claims alleging breach of fiduciary duty and breach of Virginia corporate law. On January 10, 2018, FHFA, Freddie Mac, and Fannie Mae moved to dismiss the amended complaints. On August 16, 2018, plaintiffs in the *In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations* case filed a motion for class certification in the District Court. On September 28, 2018, the District Court dismissed all of the claims except those alleging breach of the implied covenant of good faith and fair dealing. On October 15, 2018, defendants filed a motion seeking reconsideration of the denial of the motion to dismiss as to the implied covenant claims.

Angel vs. The Federal Home Loan Mortgage Corporation et al. This case was filed pro se on May 21, 2018 against Freddie Mac, Fannie Mae, certain current and former directors of Freddie Mac and Fannie Mae, and FHFA as a nominal defendant. The complaint alleges, among other things, breach of contract, breach of the implied covenant of good faith and fair dealing, and that defendants aided and abetted the government's "avoidance" of plaintiff's dividend rights. On July 12, 2018, the defendants filed a motion to dismiss the complaint.

Litigation in the U.S. Court of Federal Claims

Reid and Fisher vs. the United States of America and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on February 26, 2014. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation. The plaintiffs ask that Freddie Mac be awarded just compensation for the U.S. government's alleged taking of its property, attorneys' fees, costs and other

expenses. On March 8, 2018, the plaintiffs filed an amended complaint under seal. Defendants filed a motion to dismiss on August 1, 2018 and an amended motion to dismiss on October 1, 2018.

Rafter, Rattien and Pershing Square Capital Management vs. the United States of America et al. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on August 14, 2014. The complaint alleges that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation, and the U.S. government breached an implied-in-fact contract with Freddie Mac. In September 2015, plaintiffs filed an amended complaint, which contains one claim involving Freddie Mac. The amended complaint alleges that Freddie Mac's charter is a contract with its common stockholders, and that, through the August 2012 amendment to the Purchase Agreement, the U.S. government breached the implied covenant of good faith and fair dealing inherent in such contract. Plaintiffs ask that they be awarded damages or other appropriate relief for the alleged breach of contract as well as attorneys' fees, costs and expenses. Plaintiffs filed a further amended complaint under seal on March 8, 2018, and a redacted public version on April 20, 2018. The amended complaint no longer lists Freddie Mac as a nominal defendant.

Fairholme Funds, Inc., et al. vs. the United States of America, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. This case was originally filed on July 9, 2013 against the United States of America. On March 8, 2018, plaintiffs filed an amended complaint under seal. A redacted public version was filed on May 11, 2018 and adds Freddie Mac and Fannie Mae as nominal defendants. The amended complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking or exaction of private property for public use without just compensation, and that by enacting the net worth sweep, the government breached the fiduciary duty it owed to Freddie Mac and Fannie Mae, and implied-in-fact contracts between the United States on the one hand and Freddie Mac and Fannie Mae on the other. The plaintiffs ask that plaintiffs, Freddie Mac, and Fannie Mae be awarded (1) just compensation for the government's alleged taking or exaction of their property, (2) damages for the government's breach of fiduciary duties, and (3) damages for the government's breach of the alleged implied-in-fact contracts. In addition, plaintiffs seek pre- and post-judgment interest, attorneys' fees, costs, and other expenses. Defendants filed a motion to dismiss on August 1, 2018 and an amended motion to dismiss on October 1, 2018.

Perry Capital LLC vs. the United States of America, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants, on August 15, 2018. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation or an illegal exaction in violation of the Fifth Amendment, and that by enacting the net worth sweep, the government breached the fiduciary duty it owed to Freddie Mac and Fannie Mae, and implied-in-fact contracts between the United States on the one hand and Freddie Mac and Fannie Mae on the other. The plaintiffs ask that plaintiffs, Freddie Mac, and Fannie Mae be awarded just compensation for the government's alleged taking of their property or damages for the illegal exaction; damages for the government's breach of fiduciary duties; and damages for the government's breach of the alleged implied-in-fact contracts. The proceedings have been stayed pending a ruling on defendants' motion to dismiss in the Fairholme Funds, Inc. litigation.

Litigation in the U.S. District Court for the District of Delaware

Jacobs and Hinde vs. FHFA and Treasury. This case was filed on August 17, 2015 as a putative class action lawsuit purportedly on behalf of a class of holders of preferred stock or common stock issued by Freddie Mac or Fannie Mae. The case was also filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants. The complaint alleges, among other items, that the August 2012 amendment to the Purchase Agreement violated applicable state law and constituted a breach of contract, as well as a breach of covenants of good faith and fair dealing. Plaintiffs seek equitable and injunctive relief (including restitution of the monies paid by Freddie Mac and Fannie Mae to Treasury under the net worth sweep dividend), compensatory damages, attorneys' fees, costs and expenses. On November 27, 2017, the Court dismissed the case with prejudice after defendants filed a motion to dismiss. On December 21, 2017, plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Third Circuit. On September 7, 2018, the Court of Appeals heard oral argument.

At present, it is not possible for us to predict the probable outcome of the lawsuits discussed above in the U.S. District Courts and the U.S. Court of Federal Claims (including the outcome of any appeal) or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matters due to a number of factors, including the inherent uncertainty of pre-trial litigation. In addition, with respect to the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case, the plaintiffs have not demanded a stated amount of damages they believe are due, and the Court has not certified a class.

NOTE 17

Regulatory Capital

In October 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to monitor our capital levels, but the existing statutory and FHFA regulatory capital requirements are not binding during conservatorship.

We continue to provide quarterly submissions to FHFA on minimum capital. The table below summarizes our minimum capital requirements and deficits and net worth.

(In millions)	September 30, 2018	December 31, 2017
GAAP net worth (deficit)	\$5,559	(\$312)
Core capital (deficit) ⁽¹⁾⁽²⁾	(66,576)	(73,037)
Less: Minimum capital requirement ⁽¹⁾	18,061	18,431
Minimum capital surplus (deficit) ⁽¹⁾	(\$84,637)	(\$91,468)

(1) Core capital and minimum capital figures are estimates and represent amounts submitted to FHFA. FHFA is the authoritative source for our regulatory capital.

(2) Core capital excludes certain components of GAAP total equity (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

During 2017, we and Fannie Mae worked with FHFA to develop an overall risk measurement framework for evaluating our risk management and business decisions during conservatorship, known as the CCF. We use both the CCF and our internal capital model, which are aligned, to measure risk for making economically effective decisions. We are required to submit quarterly reports to FHFA related to the CCF requirements.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 18

NOTE 18

Selected Financial Statement Line Items

The table below presents the significant components of other income (loss) on our condensed consolidated statements of comprehensive income.

(In millions)	3Q 2018	3Q 2017	YTD 2018	YTD 2017
Other income (loss):				
Non-agency mortgage-related securities settlements and judgments	\$—	\$4,525	\$334	\$4,525
Guarantee fee income	209	169	603	476
Gains (losses) on held-for-sale loan purchase commitments	267	271	564	826
All other	(82)	438	25	685
Total other income (loss)	\$394	\$5,403	\$1,526	\$6,512

The table below presents the significant components of other assets and other liabilities on our condensed consolidated balance sheets.

(In millions)	September 30, 2018	December 31, 2017
Other assets:		
Real estate owned, net	\$760	\$892
Accounts and other receivables ⁽¹⁾⁽²⁾	6,939	6,924
Guarantee asset	3,443	3,171
Fixed assets	924	798
Advances to lenders and other secured lending ⁽²⁾	1,808	1,269
All other	702	636
Total other assets	\$14,576	\$13,690
Other liabilities:		
Servicer liabilities	\$343	\$628
Guarantee obligation	3,347	3,081
Accounts payable and accrued expenses	944	754
Payables related to securities	3,575	2,813
Income taxes payable	—	656
All other	986	1,036
Total other liabilities	\$9,195	\$8,968

(1) Primarily consists of servicer receivables and other non-interest receivables.

(2) Current and prior period presentation has been modified to reflect certain secured lending activity within advances to lenders and other secured lending. Previously this activity was included in accounts and other receivables.

END OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

Other Information

Other Information

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings. For more information, see Note 16 in this report, our 2017 Annual Report and our Form 10-Qs for the first and second quarters of 2018.

In addition, a number of lawsuits have been filed against the U.S. government related to the conservatorship and the Purchase Agreement. For information on these lawsuits, see the Legal Proceedings section in our 2017 Annual Report and our Form 10-Qs for the first and second quarters of 2018. One of these cases was filed in the U.S. District Court for the Northern District of Iowa. On March 27, 2017, the District Court dismissed this case. On August 23, 2018, the U.S. Court of Appeals for the Eighth Circuit affirmed the District Court's decision. On August 16, 2018, plaintiffs for two such cases filed in the U.S. Court of Federal Claims filed motions for class certifications. In addition, three additional cases were filed in the U.S. Court of Federal Claims: one on August 1, 2018, one on August 7, 2018, and one on August 17, 2018.

Some of these cases also have challenged the constitutionality of the structure of FHFA. Seven such cases in the U.S. Court of Federal Claims were amended to include illegal exaction claims on this basis, including one on August 13, 2018, one on August 15, 2018, and five on August 16, 2018. One additional case was filed in the Eastern District of Pennsylvania on August 16, 2018.

Freddie Mac is not a party to any of these lawsuits.

RISK FACTORS

This Form 10-Q should be read together with the Risk Factors section in our 2017 Annual Report, which describes various risks and uncertainties to which we are or may become subject. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

The securities we issue are "exempted securities" under the Securities Act of 1933, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under those plans to employees and members of the Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

Other Information

Dividend Restrictions

Our payment of dividends on Freddie Mac common stock or any series of Freddie Mac preferred stock (other than senior preferred stock) is subject to certain restrictions as described in Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Dividends and Dividend Restrictions in our 2017 Annual Report.

Information About Certain Securities Issuances by Freddie Mac

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for those offerings that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or offering circular supplements that we post on our web site or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in an offering circular or offering circular supplement, the document will be posted on our web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The web site address for disclosure about our debt securities is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt notes and SCR debt notes is available at crt.freddiemac.com and mf.freddiemac.com/investors/, respectively.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations (e.g., K Certificates and SB Certificates), can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and offering circular supplements.

We provide additional information, including product descriptions, investor presentations, securities issuance calendars, transactions volumes and details, redemption notices and Freddie Mac research, in each case as applicable, on the websites for our business segments, which can be found at www.freddiemac.com/singlefamily, mf.freddiemac.com and www.freddiemac.com/capital-markets.

EXHIBITS

The exhibits are listed in the Exhibit Index of this Form 10-Q.

Controls and Procedures

Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2018. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2018, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. We consider this situation to be a material weakness in our internal control over financial reporting.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING DURING 3Q 2018

We evaluated the changes in our internal control over financial reporting that occurred during 3Q 2018 and concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures

MITIGATING ACTIONS RELATED TO THE MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As described above under Evaluation of Disclosure Controls and Procedures, we have one material weakness in internal control over financial reporting as of September 30, 2018 that we have not remediated.

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

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

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

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

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

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

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

In view of our mitigating actions related to this material weakness, we believe that our condensed consolidated financial statements for 3Q 2018 have been prepared in conformity with GAAP.

Exhibit Index

Exhibit Index

Exhibit Description*

- | | |
|------|---|
| 12.1 | <u>Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends</u> |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u> |
| 31.2 | <u>Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u> |
| 32.1 | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u> |
| 32.2 | <u>Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u> |

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation

101.LAB XBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

101.DEF XBRL Taxonomy Extension Definition

* The SEC file numbers for the Registrant's Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are 000-53330 and 001-34139.

Freddie Mac Form 10-Q 162

Signatures

Signatures

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

Federal Home Loan
Mortgage Corporation

By: /s/ Donald H. Layton
Donald H. Layton
Chief Executive Officer

Date: October 31, 2018

By: /s/ James G. Mackey
James G. Mackey
Executive Vice President — Chief Financial Officer
(Principal Financial Officer)

Date: October 31, 2018

Form 10-Q Index

Form 10-Q Index

Item Number	Page(s)
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements <u>80 - 157</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations <u>1 - 79</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk <u>61 - 64</u>
Item 4.	Controls and Procedures <u>160 - 161</u>
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings <u>158</u>
Item 1A	Risk Factors <u>158</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>158 - 159</u>
Item 6.	Exhibits <u>159</u>
Exhibit Index	<u>162</u>
Signatures	<u>163</u>