FEDERAL HOME LOAN MORTGAGE CORP
Form 10-K
February 27, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
Commission File Number: 001-34139
Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)
Freddie Mac

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

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Voting Common Stock, no par value per share (OTCQB: FMCC)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCI)
5% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCG)
5.1% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCH)
5.79% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCL)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCM)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCN)
5.81% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCO)
6% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCP)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCJ)
5.7% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKP)
Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCS)
6.42% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCT)
5.9% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKO)
5.57% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKM)
5.66% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKN)
6.02% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKL)
6.55% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKI)
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKJ)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]
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 [X] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]
The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common equity was last sold on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was $877.6 million.
As of February 14, 2014, there were 650,039,533 shares of the registrant's common stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE: None

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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PART I

This Annual Report on Form 10-K 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-K and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K. 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 "BUSINESS — Forward-Looking Statements" and "RISK FACTORS" sections of this Form 10-K.

Throughout this Form 10-K, we use certain acronyms and terms that are defined in the "GLOSSARY."

ITEM 1. BUSINESS

Executive Summary

You should read this Executive Summary in conjunction with our MD&A and consolidated financial statements and related notes for the year ended December 31, 2013.

Overview

Freddie Mac is a GSE chartered by Congress in 1970 with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. We have maintained a consistent market presence since our inception, providing essential mortgage liquidity in a wide range of economic environments. We are working to support the continued recovery of the housing market and the nation's economy by: (a) providing America's families with access to mortgage funding at low rates while helping distressed borrowers keep their homes and avoid foreclosure, where possible; and (b) providing consistent liquidity to the multifamily mortgage market, which includes providing financing for affordable rental housing. At the same time, we are working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

Conservatorship and Government Support for Our Business

We continue to operate in conservatorship that began in September 2008, under the direction of FHFA, as our Conservator. The conservatorship and related matters continue to have a wide-ranging impact on us, including our management, business, financial condition, and results of operations. There is significant uncertainty as to our future, as conservatorship has no specified termination date, and it is unknown what changes may occur to our business model during or following conservatorship, including whether we will continue to exist.

We are also subject to certain constraints on our business activities imposed by Treasury due to the terms of, and Treasury's rights under, the Purchase Agreement. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We do not have the authority over the long term to build and retain capital from the earnings generated by our business operations, or return capital to stockholders other than Treasury.

For more information on the conservatorship and government support for our business, including the Purchase Agreement, see "Conservatorship and Related Matters" and "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS."

Consolidated Financial Results for 2013

During 2013, we continued to see improvement in the housing market, which contributed positively to our financial results. Comprehensive income was \$51.6 billion for 2013 compared to \$16.0 billion for 2012. Comprehensive income for 2013 consisted of \$48.7 billion of net income and \$2.9 billion of other comprehensive income. Our net income for 2013 includes: (a) a benefit for federal income taxes of \$23.3 billion that primarily resulted from our conclusion to release our valuation allowance against our net deferred tax assets; (b) improvements in the fair value of our derivatives from increases in long-term interest rates; (c) benefits for credit losses resulting from declines in the volume of newly delinquent loans, lower estimates of incurred losses largely resulting from an increase in national home prices and representation and warranty settlements of pre-conservatorship loan origination activity; and (d) settlements of \$5.5 billion primarily related to lawsuits regarding our investments in certain residential non-agency mortgage-related securities. Our total equity was \$12.8 billion at December 31, 2013. As a result of our positive net worth at December 31, 2013, no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2013. Through December 31, 2013, we have paid aggregate cash dividends to Treasury that slightly exceed our aggregate draws received under the Purchase Agreement. At December 31, 2013, our aggregate funding received from Treasury under the Purchase Agreement was \$71.3 billion. For a discussion of the factors that led to our

conclusion to release the valuation allowance against our net deferred tax assets, see "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Deferred Tax Assets and Liabilities" and "NOTE 12: INCOME TAXES."
The level of earnings we have experienced in recent periods is not sustainable over the long term. While our recent financial results, particularly our benefit (provision) for credit losses, benefited significantly from strong home price appreciation we are beginning to see moderation in home price growth. In addition, our recent financial results include large benefits related to the release of our deferred tax asset valuation allowance and settlements of residential non-agency mortgage-related securities litigation and claims for breaches of representations and warranties by our sellers. These trends are not expected to continue over the long term. Our settlements with sellers for claims for breaches of representations and warranties

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primarily related to pre-conservatorship loan activity are largely complete. Our residential non-agency mortgage-related securities litigation is ongoing with many large institutions and we expect additional settlements in 2014. In addition, declines in the size of our mortgage-related investments portfolio, as required by FHFA and the Purchase Agreement, will reduce earnings over time. Our financial results will also continue to be positively or negatively affected by changes in interest rates, yield curves, and mortgage spreads, which can cause significant earnings and net worth variability.

Our Primary Business Objectives

We are focused on the following primary business objectives: (a) reducing taxpayer exposure to losses by reducing and managing our overall risk profile, especially to mortgage-related risks; (b) supporting U.S. homeowners and renters by providing lenders with a constant source of liquidity for mortgage products even when other sources of financing are scarce; (c) building a commercially strong and efficient business enterprise; and (d) positioning the company, in particular our people and infrastructure, to succeed in a to-be-determined "future state."

Reducing Taxpayer Exposure to Losses by Reducing and Managing Our Overall Risk Profile, Especially to Mortgage-Related Risks

We continue to actively manage and reduce the high credit risk related to our 2005-2008 Legacy single-family book by: (a) providing homeowners with alternatives that allow them to stay in their homes; (b) maximizing the proceeds from short sales and REO sales; (c) actively managing our servicers; (d) pursuing our rights with our sellers; (e) enforcing our rights with other counterparties; and (f) reducing our mortgage-related investments portfolio. The 2005-2008 Legacy single-family book represented 16% of our single-family credit guarantee portfolio at December 31, 2013, but comprised 81% of our credit losses during 2013.

Providing Homeowners with Alternatives that Allow Them to Stay in Their Homes

We establish guidelines for our servicers to follow and provide them default management programs to use, in part, in determining which type of loan workout would be expected to provide us with an opportunity to manage our exposure to credit losses. Our servicers pursue repayment plans and loan modifications for borrowers facing financial or other hardships because the level of recovery on a reperforming loan may often be much higher than would be the case with foreclosure or foreclosure alternatives. Since 2009, we have helped approximately 953,000 borrowers experiencing hardship complete a loan workout. Under our loan workout programs, our servicers contact borrowers experiencing hardship with a goal of helping them stay in their homes or avoid foreclosure. Our servicers seek and also facilitate the completion of foreclosure alternatives when a home retention solution is not possible.

Beginning in 2009, we introduced a variety of borrower-assistance programs, including HAMP, to help keep families in their homes. We continued to expand these programs in 2013. In July 2013, as part of the servicing alignment initiative, we implemented a new streamlined modification initiative, which provides an additional modification opportunity to many delinquent borrowers who are at least 90 (but not more than 720) days delinquent. Across all our modification programs, we modified $17.4 billion and $15.1 billion in UPB of loans in 2013 and 2012, respectively.

Our relief refinance initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), is another key program used by our seller/servicers to help keep families in their homes. In 2013 and 2012, we purchased or guaranteed $99.2 billion and $122.8 billion in UPB of relief refinance loans, respectively, which included $62.5 billion and $86.9 billion in UPB of HARP loans, respectively. We have purchased HARP loans provided to nearly 1.3 million borrowers since the initiative began in 2009, including approximately 340,000 borrowers during 2013. See "Table 47 — Single-Family Relief Refinance Loans" for more information about the volume of our relief refinance purchases.

As of December 31, 2013, the borrower's monthly payment for all of our completed HAMP modifications was reduced on average by an estimated $531, which amounts to an average of $6,372 per year, and a total of $1.5 billion in annual reductions (these amounts are calculated by multiplying the number of completed modifications by the average reduction in monthly payment, and have not been adjusted to reflect the actual performance of the loans following modification).

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The table below presents our single-family loan workout activities for the last five years.
Table 1 — Total Single-Family Loan Workout Volumes[1]

(1) Based on workouts completed with borrowers for loans within our single-family credit guarantee portfolio. Excludes those modification, repayment, and forbearance activities for which the borrower has started the required process, but the actions have not been made permanent or effective, such as loans in modification trial periods. Also excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, but these have not been incorporated into certain of our operational systems due to delays in processing. These categories are not mutually exclusive and a loan in one category may also be included within another category in the same period.
(2) As of December 31, 2013, approximately 21,000 borrowers were in modification trial periods, including approximately 16,000 borrowers in trial periods for our non-HAMP modification.
(3) Excludes loans with long-term forbearance under a completed loan modification. Many borrowers enter into a short-term forbearance agreement before another loan workout is pursued or completed. We only report forbearance activity for a single loan once during each quarterly period within the year; however, a single loan may be included under separate forbearance agreements in each year.

While we believe our home retention programs have been largely successful, many borrowers still need our assistance. See "MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk" for more information about loss mitigation activities and our efforts to keep families in their homes, including through our loan modification initiatives and our relief refinance mortgage initiative.

Maximizing the Proceeds from Short Sales and REO Sales

In cases where repayment plans and loan modifications are not possible or successful, a short sale transaction typically provides us with a comparable or higher level of recovery than a foreclosure and subsequent property sale from our REO inventory. In large part, the benefit of a short sale is that we avoid costs we would otherwise incur to complete the foreclosure and dispose of the property, including maintenance, property taxes, and other expenses associated with holding REO property.

We believe our REO disposition and short sale severity ratios in 2013 were positively affected by changes made in 2012 to our process for evaluating the market value and determining the list price for our REO properties when we offer them for sale, as well as repairing a higher percentage of our REO properties prior to listing them.

Actively Managing our Servicers

We continue to face challenges with respect to the performance of certain of our single-family servicers in managing our seriously delinquent loans. Our servicers represent and warrant to us that loans serviced on our behalf will be serviced in accordance with our servicing contract. These contractual obligations provide us with remedies for breaches in servicing. These contractual remedies include the ability to require the servicer to pay compensatory or other fees, repurchase the loan at its current UPB, and/or reimburse us for losses realized. During 2013, we began to increase our review of servicing related violations, including by issuing notices of defect to our servicers for certain violations of our servicing standards. As of December 31, 2013, we had: (a) $0.6 billion of outstanding repurchase requests; and (b) $0.3 billion of outstanding notices of

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defect, with our servicers, based on the UPB of the related loans. We also recognized $0.4 billion of compensatory fees during 2013 primarily for servicer failures to complete a foreclosure within our timelines.

We continue to have a large population of seriously delinquent loans, many of which have been delinquent for more than one year; these loans tend to be more challenging to resolve. As of December 31, 2013, our serious delinquency rate for the aggregate of those states that require a judicial foreclosure and all other states was 3.31% and 1.63%, respectively. Foreclosures generally take longer to complete in states where judicial foreclosures are required, compared to other states. During 2013, the average time to foreclose on properties in judicial states was 943 days compared to 567 days in non-judicial states for loans in our single-family credit guarantee portfolio, excluding those underlying our Other Guarantee Transactions.

As part of our efforts to maximize foreclosure alternatives, increase problem loan workouts, and mitigate our credit losses, we have continued to facilitate the transfer of servicing for certain pools of loans with higher credit risk from underperforming servicers to other servicers that specialize in workouts of problem loans. During 2013, we facilitated the transfer of servicing for $55.6 billion in UPB of loans from our primary servicers to specialty servicers.

Pursuing Our Rights with Our Sellers

We have contractual arrangements with our sellers under which they agree to sell us mortgage loans, and represent and warrant that those loans have been originated under specified underwriting standards. If we subsequently discover that the representations and warranties were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These remedies include the ability to require the seller to repurchase the loan at its current UPB and/or reimburse us for losses realized.

We continue to recover credit losses from seller/servicers in the normal course of business related to breaches of representations and warranties for loans they sold to us or service for us. In addition, in 2013, we also actively pursued seller representation and warranty settlements of pre-conservatorship loan activity, agreeing to settlements with nine of our larger sellers and several of our smaller sellers covering approximately 49% of the 2005-2008 Legacy single-family book as of December 31, 2013. During 2013, we recovered amounts from seller/servicers with respect to $5.6 billion in UPB of loans subject to our repurchase requests, including $2.1 billion related to settlement agreements. Approximately 23% of the $5.6 billion in UPB associated with repurchase requests were satisfied by the reimbursement of losses (excluding amounts related to settlement agreements). As of December 31, 2013, we had $1.6 billion of outstanding repurchase requests with sellers, based on UPB of the loans. In November 2013, FHFA announced that we had substantially achieved the 2013 Conservatorship Scorecard goal to complete our requests for remedies for breaches of seller representations and warranties related to pre-conservatorship loan origination activity.

Enforcing Our Rights with Other Counterparties

We continue to pursue claims for coverage under mortgage insurance policies in the normal course of business. We also continued to actively pursue settlements with mortgage insurance counterparties. We use mortgage insurance, which is a form of credit enhancement, to mitigate our credit loss exposure. Primary mortgage insurance is generally required to be purchased at loan origination, typically at the borrower’s expense, for certain mortgages with higher LTV ratios, from an insurer that is typically selected by the lender. We received payments under primary and other mortgage insurance of $2.0 billion in each of 2013 and 2012 which helped to mitigate our credit losses. Although the financial condition of certain of our mortgage insurers improved moderately in 2013 as a result of strong home price appreciation and their having raised additional capital, there is still a significant risk that these counterparties may fail to meet their obligations to pay our claims. We expect to receive substantially less than full payment of our claims from three of our seven larger mortgage insurance counterparties, as they are currently partially paying claims under orders of their regulators and are no longer rated by S&P or Moody's. Of our four largest mortgage insurers, three are rated B, and one is rated BBB+, as of February 14, 2014. We consider the collectability of our claims against our mortgage insurers when determining the receivables and estimating our allowance for loan losses on our consolidated balance sheets.

Our ability to manage our exposure to mortgage insurers may be limited as: (a) certain of our mortgage insurers are operating below our eligibility thresholds; and (b) our ability to revoke a mortgage insurer's status as an eligible insurer may require FHFA approval. We are working with FHFA and Fannie Mae to improve mortgage insurance standards. We are developing counterparty risk management standards for mortgage insurers that include revised eligibility requirements. In December 2013, FHFA announced that we and Fannie Mae, in collaboration with our mortgage insurers, had completed development of new master policies, for which the mortgage insurers are expected to seek state regulatory approval. These changes to the master policies are intended to provide greater certainty of coverage, facilitate timely claims processing, and help address the significant problems we faced in recent years in resolving repurchase requests related to mortgage insurance rescission. We expect to finalize changes to financial requirements and other standards for mortgage insurer eligibility in 2014.

At the direction of our Conservator, we are also working to enforce our rights as an investor with respect to the non-agency mortgage-related securities we hold, and are engaged in various efforts, in some cases in conjunction with other investors, to mitigate or recover losses on our investments in these securities. During 2013, we and FHFA reached settlements with a number of institutions pursuant to which we received an aggregate of $5.5 billion. In addition, in February 2014, we and

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FHFA entered into an agreement with Morgan Stanley, and related parties, to settle litigation related to certain residential non-agency mortgage-related securities we hold for $625 million. This settlement will be reflected in our consolidated financial results for the first quarter of 2014. Lawsuits against a number of large institutions are currently pending. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for more information about our recent agreements with non-agency mortgage-related security issuers.

We are also working to enforce our rights in the Lehman bankruptcy. In February 2014, we reached a settlement with Lehman Brothers Holdings Inc. pursuant to which we will receive $767 million to resolve our claims related to Lehman's bankruptcy. Consequently, we adjusted our December 31, 2013 estimate of the expected recoveries of our short-term lending receivable by $350 million, which reduced other expenses by the same amount. For more information, see "NOTE 17: LEGAL CONTINGENCIES."

Reducing Our Mortgage-Related Investments Portfolio

During 2013, we continued to reduce the size of our mortgage-related investments portfolio, as required under the terms of the Purchase Agreement and FHFA regulation. Our mortgage-related investments portfolio declined 17%, or $96.5 billion, from $557.5 billion as of December 31, 2012 to $461.0 billion as of December 31, 2013 and was below the required limit. Our less liquid assets accounted for $70.9 billion of this decline primarily due to: (a) liquidations; and (b) consistent with our 2013 Conservatorship Scorecard goal, sales of $16.8 billion which exceeded our scorecard goal.

While our on-going focus remains on reducing our less liquid assets, we continue to purchase certain of these assets as part of our business strategies. In 2014, we plan to continue to reduce our mortgage-related investments portfolio, consistent with the Purchase Agreement and FHFA regulation, through liquidations and sales, subject to a variety of constraints, including market conditions.

Supporting U.S. Homeowners and Renters by Providing Lenders with a Constant Source of Liquidity for Mortgage Products even when Other Sources of Financing are Scarce

We maintain a consistent market presence by providing lenders with a constant source of liquidity for mortgage products even when other sources of financing are scarce. This liquidity provides our customers with confidence to continue lending even in difficult environments. During 2013 and 2012, we purchased or issued other guarantee commitments for $422.7 billion and $426.8 billion in UPB of single-family conforming mortgage loans, representing approximately 2.1 million and 2.0 million homes, respectively. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed more than 90% of the single-family conforming mortgages originated since 2008. During 2013, our multifamily new business activity (i.e., loan purchases and issuances of Other Structured Securities and other guarantee commitments), totaled $25.9 billion, and provided financing for nearly 1,600 properties amounting to nearly 388,000 apartment units. The vast majority of these apartments were affordable to low and moderate income families.

Building a Commercially Strong and Efficient Business Enterprise

Single-Family Guarantee Segment Strategies

Our single-family business is our core business line. We continue to take steps to build a stronger, profitable business model for our ongoing business. Our goal is to strengthen the business model in order to run the business efficiently and effectively in support of homeowners and taxpayers and, if required as part of a future state for the enterprise, to be able to promptly return to private sector ownership.

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

- Leveraging the fundamentals: We are leveraging our existing product offerings to better meet the needs of an evolving mortgage market. This includes working to reduce repurchase requests and penalties, in the form of fees, by providing greater certainty for seller/servicers that the loans they sell to us or service for us meet our requirements. We are doing this by enhancing the tools we make available to our customers (including Loan Prospector, Loan Quality Advisor, and Home Value Estimator), and expanding and leveraging the data standards of the Uniform Mortgage Data Program. We intend to continue to simplify, streamline, and strengthen our operations, while keeping pace with regulatory requirements, such as those implemented under the Dodd-Frank Act.
- Better serving our customers: Our customers are our sellers, servicers, and investor/dealers. Based on feedback we have received directly from our customers through our Customer Advisory Boards, surveys, and ongoing

conversations, we are enhancing our processes and programs to improve our customers' experience when doing business with us.

- Managing the credit risk of the single-family credit guarantee portfolio: We are managing our credit risk by setting our underwriting standards at a level commensurate with the long-term credit risk appetite of the company. We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage eligibility and underwriting standards, and the seller/servicers represent and warrant to us that the mortgages sold to us meet these standards. Beginning in 2009, we have made various changes to our credit policies, including changes to improve our underwriting standards, purchased fewer

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loans with higher risk characteristics, and assisted in improving our mortgage insurers' and lenders' underwriting practices. As a result, the credit quality of the New single-family book is significantly better than that of the 2005-2008 Legacy single-family book, as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with full documentation, as well as delinquency rates and credit losses.

- Transferring the credit risk of the single-family credit guarantee portfolio: We consider risk transfer transactions to be a prudent way to manage risk in our business. We executed three transactions during 2013 that transfer a mezzanine credit loss position on certain groups of loans in the New single-family book. These transactions are intended to shift mortgage credit risk from us to private investors and are consistent with our 2013 Scorecard goal. While these transactions have been relatively small compared to our overall mortgage credit risk, we believe they have attracted broad interest in the market. We will seek to expand and refine our offerings of credit risk transfer transactions in the future.
- Optimizing the economics of the single-family credit guarantee portfolio: We strive to achieve the highest economic returns on our portfolio while considering and balancing our: (a) customer diversification; and (b) housing mission and goals. We also align our mortgage-related securities offerings and disclosures with customer needs and investor demand to balance the achievement of the above objectives while considering the relative performance of our securities in the market.

Investments Segment Strategies

Our Investments segment is a key business operation, which has certain objectives in 2014, including:

- Maintaining a presence in the agency mortgage-related securities market. Our activities in this market may include outright purchases and sales, dollar roll transactions, and structuring existing agency securities into REMICs and selling some or all of the tranches.
- Maintaining a portfolio of liquid securities consistent with our liquidity management guidelines. In managing the reduction of our mortgage-related investments, we evaluate the liquidity of these investments based on two categories: (a) single-class and multiclass agency securities; and (b) assets that are less liquid than agency securities. We are focusing our efforts on reducing the balance of less liquid assets in the mortgage-related investments portfolio. Our liquid assets collectively represented approximately 40% of UPB of the portfolio at December 31, 2013, compared to 38% at December 31, 2012.
- Managing the single-family performing loans obtained through our cash purchase program. We purchase loans from lenders for cash and, in conjunction with the single-family business, securitize the majority of these loans into Freddie Mac agency securities that may be sold to dealers or investors, or retained in our mortgage investments portfolio as agency securities.
- Managing single-family re-performing loans and performing modified loans. This includes securitizing loans, and could include selling loans or other disposition strategies in the future.
- Managing single-family delinquent loans along with the single-family business. This includes removing seriously delinquent loans from PC pools and could include selling loans, securitizing loans, or other disposition strategies in the future.
- Reducing the overall balance of our holdings of non-agency mortgage-related securities through liquidations and sales, subject to a variety of constraints, including market conditions.
- Managing the treasury function, including funding and liquidity, for the overall company, through the issuance of short-term and long-term unsecured debt. We maintain a liquidity and contingency portfolio of cash and non-mortgage investments for short-term liquidity management.
- Managing the interest-rate risk for the overall company through the use of derivatives and unsecured debt.

Multifamily Segment Strategies

Our Multifamily business is also a key business operation, and provides a consistent source of liquidity to the multifamily mortgage market while maintaining a strong credit and capital management discipline. We accomplish this primarily by focusing on our business model of aggregating and securitizing mortgage loans in order to transfer the expected credit risk associated with the loans to third-party investors who hold the subordinated securities. The nature of our Multifamily business is in line with the general concept that private investors should absorb the first and predominant losses before any taxpayer exposure; we believe this positions the business well for the future.

Additionally, we plan to continue to execute our mission to provide and support a consistent supply of affordable rental housing.

As a result of our prudent underwriting standards and practices, and the continued positive multifamily market fundamentals, the credit quality of the multifamily mortgage portfolio remains strong, and multifamily credit losses during 2013 were less than 0.01% (or less than one basis point) as a percentage of the combined average balance of our multifamily loan and guarantee portfolios.

We continued to expand our K Certificate issuances in the multifamily market with a 32% increase in this activity in 2013, based on UPB, compared to 2012. We were able to increase our securitization volumes in 2013 despite our 10% reduction in new loan purchase volume. During 2013, we reduced the UPB of loans we held in our portfolio for securitization as we were able to reduce the time between loan purchase and securitization. Our K Certificate transactions allow us to sell a portion of mortgage credit risk to private investors who purchase subordinated tranches at the time of transaction execution. As a result of repayments, K Certificate issuances, and sales of loans in our multifamily mortgage portfolio, the non-credit enhanced portion of this portfolio declined by 21% during 2013. In addition, our CMBS portfolio (backed by multifamily loans) declined by 37% during 2013, principally from our sales of these securities. These actions significantly reduced our exposure to credit risk in our Multifamily business.

Positioning the Company, in Particular Our People and Infrastructure, to Succeed in a to-be-determined “future state”

Development of a New Secondary Mortgage Market

Under the direction of FHFA and in accordance with the 2013 Conservatorship Scorecard, we continue various efforts to build the infrastructure for a future housing finance system, including the following:

- Common Securitization Platform: On October 7, 2013, FHFA announced the formation of Common Securitization Solutions, LLC[SM] ("CSS"), which will build and operate the future new common securitization platform. In addition, FHFA announced that: (a) office space has been leased for CSS; and (b) an executive recruitment firm has been retained to identify candidates for the positions of Chief Executive Officer and Chairman of the Board of Managers of CSS. CSS is equally-owned by Freddie Mac and Fannie Mae. In connection with the formation of CSS, we entered into a limited liability company agreement with Fannie Mae and anticipate entering into additional agreements with Fannie Mae relating to CSS in the future.
- Contractual and Disclosure Framework: FHFA directed us to work with Fannie Mae to implement a set of uniform contractual terms and standards for transparency that can inform the single-family mortgage securitization market in the future. During 2013, a team from Freddie Mac and Fannie Mae performed analysis and developed preliminary recommendations for: (a) fully-guaranteed (GSE) mortgage-related securities; (b) non- or partially guaranteed (GSE) mortgage-related securities; and (c) new master trust agreements for these types of securities.
- Uniform Mortgage Data Program: We and Fannie Mae are collaborating with the industry to develop and implement uniform data standards for single-family mortgages. We have already made significant progress by completing initial phases of this program, including: (a) standard appraisal data elements; (b) the Uniform Collateral Data Portal, which allows us to aggregate this data from sellers; and (c) the Uniform Loan Delivery Dataset, which defines common data elements for each loan we acquire or guarantee. During 2013, we expanded the data elements in the Uniform Loan Delivery Dataset and aligned the dataset with recent changes required by the Consumer Financial Protection Bureau, or CFPB.
- Representation and Warranty Framework: At the direction of FHFA, we and Fannie Mae launched a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework is to clarify lenders’ repurchase exposures and liability on future sales of mortgage loans to Freddie Mac and Fannie Mae. Under it, lenders are relieved of certain repurchase obligations for loans that meet specific payment requirements three years after purchase (and one year for HARP and other relief refinance mortgages).
- Lender placed insurance standards: As part of the servicing alignment initiative, we announced changes in our servicing standards for situations in which our servicers obtain property hazard insurance on properties securing single-family loans we own or guarantee. As a result, effective June 1, 2014, our seller/servicers may not receive compensation or other payment from insurance carriers nor may they use their own or affiliated entities to insure or reinsure a property.

In addition, we also worked to help our seller/servicers improve their underwriting processes for loans that they sell to us. As part of these efforts and in accordance with the 2013 Conservatorship Scorecard, we made progress in the following areas during 2013:

- Began an initiative for enhanced early-risk assessment by seller/servicers, including implementation of Loan Quality Advisor, a new automated tool for use in evaluating the credit eligibility of loans and identifying non-compliance issues;

- Announced requirements for our seller/servicers in response to certain final rules from the CFPB, including rules concerning the requirements for borrowers' ability to repay and high-cost mortgages, that were implemented beginning in January 2014. See “BUSINESS — Legislative and Regulatory Developments — Dodd-Frank Act” for further information on the final rules;
- Implemented standard timelines, appeal requirements, and alternative remedies for resolution of repurchase obligations as part of our efforts to enhance post-delivery quality control practices and transparency associated with our new representation and warranty framework; and

- Expanded our loan review sampling strategy, specifically focusing on newly purchased mortgage loans, to evaluate compliance with our standards.

Investing in Human, Technology and Other Resources

We continue to make strategic investments to maintain and improve our ability to operate the company for the foreseeable future in conservatorship and potentially afterwards. Our human capital risks have abated considerably in recent periods, as evidenced by low voluntary turnover and vacancy rates. In 2011, we experienced increased levels of voluntary turnover while the Administration and Congress publicly debated our future business model and compensation structure, and the possibility remains that we may experience increased turnover again in the future. However, during 2013 we continued to attract well-qualified candidates, as evidenced by our hiring of five new senior officers.

Our information technology risk also continues to decline. For example, in 2013, we completed a three-year multimillion dollar project to move our key legacy applications and infrastructure to current, supported technology. We are investing each year to maintain our technology and are focused on standardizing and simplifying the technology portfolio. We continue to focus on emerging information security risks and hired a new Chief Information Security Officer in 2013.

Streamlining, Simplifying and Strengthening Operations

We continue to strengthen our operations. Beginning in mid-2012 and continuing through 2013, we took steps to enhance management’s focus on control issues by elevating awareness of those issues across the company and stressing timely remediation. As a result, the number of outstanding control issues reached its lowest level since conservatorship. We also continue to work to improve our operating efficiency. In 2013, we began a multi-year project focused on simplifying our control structure and eliminating redundant control activities. We updated our risk and control framework to increase our emphasis on risk management and are conducting detailed operational controls design reviews to identify ways to simplify our controls structure.

We are reviewing our information technology architecture design with a focus on simplifying our information technology environment. We are also building our out-of-region disaster recovery capabilities.

Our Business

We conduct business in the U.S. residential mortgage market and the global securities market, subject to the direction of our Conservator, FHFA, and under regulatory supervision of FHFA, the SEC, HUD, and Treasury. The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, home ownership rates, home prices, the supply of housing and lender preferences regarding credit risk and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of mortgages meeting the requirements of our charter, our own preference for credit risk reflected in our purchase standards and the mortgage purchase and securitization activity of other financial institutions. We operate our business solely 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 outside the United States and its territories.

In addition to the directives given to us by our Conservator, our charter forms the framework for our business activities, the initiatives we bring to market and the services we provide to the nation’s residential housing and mortgage industries. Our charter also determines the types of mortgage loans that we are permitted to purchase. Our statutory mission as defined in our charter is to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low- and moderate-income families, involving a reasonable economic return that may be less than the return earned on other activities); and
- promote access to mortgage credit throughout the U.S. (including central cities, rural areas, and other underserved areas).

Our charter does not permit us to originate mortgage loans or lend money directly to consumers in the primary mortgage market. We provide liquidity, stability and affordability to the U.S. housing market primarily by providing our credit guarantee for residential mortgages originated by mortgage lenders. We use mortgage securitization as an integral part of our activities. In certain circumstances, we also provide our guarantee without securitization of the related assets (we refer to these transactions as other guarantee commitments).

Our charter limits our purchases of single-family loans to the conforming loan market. The conforming loan market is defined by loans originated with UPBs at or below limits determined annually based on changes in FHFA's housing price index, a method established and maintained by FHFA for determining the national average single-family home price. Since 2006, the base conforming loan limit for a one-family residence has been set at $417,000, and higher limits have been established in certain "high-cost" areas (currently, up to $625,500 for a one-family residence). Higher limits also apply to two- to four-family residences and for mortgages secured by properties in Alaska, Guam, Hawaii, and the U.S. Virgin Islands. For more information, see “Regulation and Supervision — Legislative and Regulatory Developments — FHFA Request for Public Input on Proposed Gradual Decrease of Loan Limits.”

Our charter generally prohibits us from purchasing first-lien single-family mortgages if the outstanding UPB of the mortgage at the time of our purchase exceeds 80% of the value of the property securing the mortgage unless we have one of the following credit protections:

- mortgage insurance on the portion of the UPB of the mortgage that exceeds 80%;
- a seller’s agreement to repurchase or replace any mortgage that has defaulted; or
- retention by the seller of at least a 10% participation interest in the mortgage.

Our charter requirement for credit protection on mortgages with LTV ratios greater than 80% does not apply to multifamily mortgages or to mortgages that have the benefit of any guarantee, insurance or other obligation by the U.S. or any of its agencies or instrumentalities (e.g., the FHA, the VA or the USDA Rural Development). Additionally, as part of HARP, we purchase single-family mortgages that refinance borrowers whose mortgages we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place for any such loan, even if the LTV ratio of the new loan is above 80%.

Under our charter, our mortgage purchase operations are confined, so far as practicable, to mortgages that we deem to be of such quality, type and class as to meet generally the purchase standards of other private institutional mortgage investors. This is a general marketability standard.

Overview of the Mortgage Securitization Process

Mortgage securitization is a process by which we purchase mortgage loans that lenders originate, and pool these loans into mortgage-related securities that are sold in global capital markets, generating proceeds that support future loan origination activity by lenders. The primary Freddie Mac guaranteed mortgage-related security is the single-class PC. We also aggregate and resecuritize mortgage-related securities that are issued by us, other GSEs, HFAs, or private (non-agency) entities, and issue other single-class and multiclass mortgage-related securities to third-party investors.

The following diagram illustrates how we support mortgage market liquidity when we create PCs through mortgage securitizations. These PCs can be sold to investors or held by us or our lender customers.

Mortgage Securitizations

In general, for single-family loans, the securitization and Freddie Mac guarantee process works as follows: (a) a lender originates a mortgage loan to a borrower purchasing a home or refinancing an existing mortgage loan; (b) we purchase the loan from the lender and place it with other mortgages into a security that is sold to investors (this process is referred to as “pooling”); (c) the lender may then use the proceeds from the sale of the loan or security to originate another mortgage loan; (d) we provide a credit guarantee (for a fee) to those who invest in the security; (e) the borrower’s monthly payment of mortgage principal and interest (net of a servicing fee and our management and guarantee fee) is passed through to the investors in the security; and (f) if the borrower stops making monthly payments - because a family member loses a job, for example - we step in and, pursuant to our guarantee, make the applicable payments to investors in the security. In the event a borrower defaults on the mortgage, our servicer works with the borrower to find a solution to help them stay in the home, or sell the property and avoid foreclosure, through our many different workout options. If this is not possible, we ultimately foreclose and sell the home.

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We issue mortgage-related securities in the form of PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions. Each of these types of mortgage-related securities is discussed below.

PCs

Our PCs are single-class pass-through securities that represent undivided beneficial interests in trusts that hold pools of mortgages we have purchased. For our fixed-rate PCs, we guarantee the timely payment of principal and interest. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We also guarantee the full and final payment of principal for ARM PCs; however, we do not guarantee the timely payment of principal on ARM PCs. We issue most of our PCs in transactions in which our customers provide us with mortgage loans in exchange for PCs. We refer to these transactions as guarantor swaps. We guarantee our PCs in exchange for compensation, which consists primarily of a combination of management and guarantee fees paid on a monthly basis as a percentage of the UPB of the underlying loans (referred to as base fees), and initial upfront payments (referred to as delivery fees). We may also make upfront payments to buy-up the monthly management and guarantee fee rate, or receive upfront payments to buy-down the monthly management and guarantee fee rate. These upfront payments are paid in conjunction with the formation of a PC to provide for a uniform coupon rate for the mortgage pool underlying the issued PC. The following diagram illustrates a guarantor swap transaction.

Guarantor Swap

We also issue PCs in transactions in which we purchase mortgage loans for cash and securitize them for sale to third parties. We often sell PCs in a “cash auction", as illustrated in the following diagram.

Cash Purchase Process and Securitization of PCs

Institutional and other fixed-income investors, including pension funds, insurance companies, securities dealers, money managers, REITs, and commercial banks, purchase our PCs. In recent years, the Federal Reserve has purchased significant amounts of mortgage-related securities issued by us, Fannie Mae and Ginnie Mae. These purchases, which are ongoing, have affected mortgage spreads and the demand for and values of our PCs. The Federal Reserve began to taper these purchases in January 2014, but no assurance can be given that the Federal Reserve will continue its current practices.

PCs differ from most other fixed-income securities in several ways. For example, and most significantly, single-family PCs can be partially or fully prepaid at any time. Homeowners have the right to prepay their mortgage at any time (known as the prepayment option), and homeowner mortgage prepayments are passed through to the PC holder. Consequently, mortgage-related securities implicitly have a call option that significantly reduces the average life of the security from the contractual loan maturity. As a result, our PCs generally provide a higher nominal yield than certain other fixed-income products. In addition, in contrast to U.S. Treasury securities, PCs are not backed by the full faith and credit of the United States and are instead backed by interests in real estate, in addition to our own guarantee.

From time to time we undertake actions in an effort to support the liquidity and price performance of our PCs relative to comparable Fannie Mae securities through a variety of activities, including the resecuritization of PCs into REMICs and Other Structured Securities. Other strategies may include: (a) encouraging sellers to pool mortgages that they deliver to us into PC pools with a larger and more diverse population of mortgages; (b) influencing the volume and characteristics of mortgages delivered to us by tailoring our loan eligibility guidelines and other means; and (c) engaging in portfolio purchase and retention activities. See “Investments Segment — Market Presence and PC Support Activities” and “RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates.” for additional information about our efforts to support the liquidity and relative price performance of our PCs.

REMICs and Other Structured Securities

Our REMICs and Other Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We create these securities (which can be single-class or multiclass types) primarily by using PCs or previously issued REMICs and Other Structured Securities as the underlying collateral.

Single-class securities involve the straight pass-through of all of the cash flows of the underlying collateral to holders of the beneficial interests. Our primary multiclass securities qualify for tax treatment as REMICs. Multiclass securities divide all of the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors by creating classes of securities with varying maturities, payment priorities and coupons, each of which represents a beneficial ownership interest in a separate portion of the cash flows of the underlying collateral. Usually, the cash flows are divided to modify the relative exposure of different classes to interest-rate risk, or to create various coupon structures. The simplest division of cash flows is into principal-only and interest-only classes.

Similar to our PCs, we guarantee the payment of principal and interest to the holders of tranches of our REMICs and Other Structured Securities. We do not charge a management and guarantee fee for these securities if the underlying collateral is already guaranteed by us since no additional credit risk is introduced. Because the collateral underlying nearly all of our single-family REMICs and Other Structured Securities consists of other mortgage-related securities that we guarantee, there are no economic residual interests in the related securitization trust. We do not issue tranches of securities in these transactions that have concentrations of credit risk beyond those embedded in the underlying assets. The following diagram provides a general example of how we create REMICs and Other Structured Securities.

REMICs and Other Structured Securities

We issue many of our REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets or we exchange our own mortgage-related assets (e.g., PCs and REMICs and Other Structured Securities) for the REMICs and Other Structured Securities. The creation of REMICs and Other Structured Securities allows for setting differing terms for specific classes of investors, and our issuance of these securities can expand the range of investors in our mortgage-related securities to include those seeking specific security attributes. For REMICs and Other Structured Securities that we issue to third parties, we typically receive a transaction, or resecuritization, fee. This transaction fee is compensation for facilitating the transaction, as well as future administrative responsibilities.

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Other Guarantee Transactions

We also issue mortgage-related securities to third parties in exchange for non-Freddie Mac mortgage-related securities. We refer to these as Other Guarantee Transactions. The non-Freddie Mac mortgage-related securities are transferred to trusts that were specifically created for the purpose of issuing securities, or certificates, in the Other Guarantee Transactions.

Other Guarantee Transactions can generally be segregated into two different types. In one type, we purchase only senior tranches from a non-Freddie Mac senior-subordinated securitization, place the senior tranches into securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. In this type of transaction, our credit risk is reduced by the structural credit protections from the related subordinated tranches, which we do not issue or guarantee. In the second type, we purchase single-class pass-through securities, place them in securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. Our Other Guarantee Transactions backed by single-class pass-through securities do not benefit from structural or other credit enhancement protections.

Although Other Guarantee Transactions generally have underlying mortgage loans with varying risk characteristics, we do not issue tranches that have concentrations of credit risk beyond those embedded in the underlying assets, as all cash flows of the underlying collateral are passed through to the holders of the securities and there are no economic residual interests in the securitization trusts. Additionally, there may be other credit enhancements and structural features retained by the seller that provide credit protection to our interests, and reduce the likelihood that we will have to perform under our guarantee of the senior tranches. In exchange for providing our guarantee, we receive a management and guarantee fee and/or other delivery fees.

Our primary Other Guarantee Transactions are multifamily K Certificates. In substantially all of these transactions, we guarantee only the most senior tranches of the securities, and as a result, the expected credit risk associated with these loans is sold in subordinated tranches to third-party investors. We do not issue or guarantee the subordinate tranches, which are considered CMBS. However, we may purchase a portion of either the guaranteed certificates or the unguaranteed CMBS, based on market conditions.

The following diagram provides an example of our K Certificate transactions.

K Certificate Transaction

In 2009 and 2010, we entered into transactions under Treasury's NIBP with HFAs, for the partial guarantee of certain single-family and multifamily HFA bonds, which were Other Guarantee Transactions with significant credit enhancement provided by Treasury. The securities issued by us pursuant to the NIBP were purchased by Treasury. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative" for further information.

For information about the amount of mortgage-related securities we have issued, see "Table 33 — Freddie Mac Mortgage-Related Securities." For information about the relative performance of mortgages underlying these securities, see "MD&A — RISK MANAGEMENT — Credit Risk."

Our Business Segments

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

We evaluate segment performance and allocate resources based on a Segment Earnings approach. For more information on our segments, including financial information, see "MD&A — CONSOLIDATED RESULTS OF OPERATIONS — Segment Earnings" and "NOTE 13: SEGMENT REPORTING."

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Single-Family Guarantee Segment

In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees.

Single-Family Mortgage Market

The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders (i.e., our sellers) and a secondary mortgage market that links lenders and investors. We participate in the secondary mortgage market primarily by purchasing mortgage loans and mortgage-related securities and by issuing guaranteed mortgage-related securities. In the Single-family Guarantee segment, we purchase and securitize “single-family mortgages,” which are mortgages that are secured by one- to four-family properties.

The terms of single-family mortgage loans that we purchase or guarantee allow borrowers to prepay these loans, thereby allowing borrowers to refinance their loans when mortgage rates decline. Because of the nature of long-term, fixed-rate mortgage loans, borrowers with these mortgage loans are protected against rising interest rates, but are able to take advantage of declining rates through refinancing. When a borrower prepays a mortgage loan that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment. Unscheduled reductions in loan principal, regardless of whether they are voluntary or involuntary, result in prepayments of security balances. Consequently, the owners of our guaranteed securities are subject to prepayment risk on the related mortgage loans, which is primarily the risk that the investor will receive an unscheduled early return of the principal, and therefore may not earn the rate of return originally expected on the investment.

Our Customers

Our customers in the Single-family Guarantee segment are predominantly lenders and loan servicers in the primary mortgage market that originate mortgages for homeowners and service these loans for us. These companies include mortgage banking companies, commercial banks, community banks, credit unions, HFAs, and thrift institutions. Many of these companies perform both roles for us as seller/servicers. In addition, we view investors and dealers in our guaranteed mortgage-related securities and STACR debt notes as customers.

We acquire a significant portion of our mortgages from several lenders that are among the largest mortgage loan originators in the U.S. During 2013, two mortgage lenders, Wells Fargo Bank, N.A and JPMorgan Chase Bank, N.A., each accounted for 10% or more of our single-family mortgage purchase volume and together accounted for approximately 30% of our single-family mortgage purchase volume. Our top ten lenders accounted for approximately 64% and 73% of our single-family mortgage purchase volume during 2013 and 2012, respectively.

We do not have our own mortgage loan servicing operation. Instead, our customers perform the primary servicing function on our loans on our behalf. A significant portion of our single-family mortgage loans is serviced by several of our large customers. For additional information about our relationships with our customers, see “MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Single-Family Mortgage Seller/Servicers.”

Our Competition

Historically, the principal competitors of our Single-family Guarantee segment have been Fannie Mae, Ginnie Mae (with FHA/VA), and other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, and thrift institutions. Since 2008, most of our non-GSE competitors have ceased their securitization business or severely curtailed these activities relative to their previous levels. However, in recent periods, many of our non-GSE competitors that ceased securitization activity have continued to originate or purchase single-family loans and began to hold them on their balance sheets as investments rather than securitize them with the GSEs. We compete on the basis of price, products, the structure of our securities, and service. Competition to acquire single-family mortgages can also be significantly affected by changes in our credit standards.

The conservatorship, including direction provided to us by our Conservator, may affect our ability to compete. FHFA has required that we and Fannie Mae adopt uniform approaches in a number of areas. For more information, see “RISK FACTORS — Conservatorship and Related Matters — Competition from banking and non-banking companies, as well as efforts by FHFA to reduce the GSEs' dominance in the marketplace, may harm our business."

Guarantee Fees and Contractual Arrangements

We enter into mortgage loan purchase volume agreements with many of our single-family customers that outline the terms under which we agree to purchase loans from them. Some of these agreements, however, require the lenders to deliver to us a minimum percentage of their total sales of conforming loans. These agreements include specified pricing schedules for our management and guarantee fees that are negotiated at the outset of the contract. For the majority of the mortgages we purchase, however, the management and guarantee fees are not specified contractually. Instead, we bid for some or all of the lender's mortgage loan volume on a monthly basis at a management and guarantee fee rate that we specify.

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Our mortgage loan purchase volumes from individual customers can fluctuate significantly. If a mortgage lender fails to meet its contractual commitment, we have a variety of contractual remedies, which may include the right to assess certain fees. Our mortgage loan purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of presented mortgage loans. However, if we were to fail to meet our contractual commitment, we could be deemed to be in breach of our contract and could be liable for damages in a lawsuit. For agreements that include specified management and guarantee fees, we can change such fees at our discretion, with notice. However, the lenders generally have the option to terminate these agreements when changes to our fees occur, unless the fee changes are broad-based as defined in the agreements.

We seek to issue guarantees with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term: (a) provide management and guarantee fee income that exceeds our anticipated credit-related and administrative expenses on the underlying loans; and (b) provide a return on the capital that would be needed to support the related credit risk. To compensate us for higher levels of risk in some mortgage products, we charge upfront delivery fees above the base management and guarantee fee, which are calculated based on credit risk factors such as the mortgage product type, loan purpose, LTV ratio and other loan or borrower characteristics. Historically, we have varied our guarantee and delivery fee pricing for different customers, mortgage products, and mortgage or borrower underwriting characteristics based on our assessment of credit risk and loss mitigation related to single-family loans, as well as other factors.

We implemented several increases in delivery fees in recent years that are applicable to single-family mortgage loans with certain higher-risk loan characteristics. Certain of these fee increases do not apply to relief refinance mortgages with LTV ratios greater than 80% and with settlement dates on or after July 1, 2011. We have established maximum limits on the amount of delivery fees that are imposed for relief refinance mortgages, regardless of the LTV ratio of the loan.

We also implemented two across-the-board increases in guarantee fees in 2012. Effective April 1, 2012, at the direction of FHFA, both we and Fannie Mae increased the guarantee fee on single-family residential mortgages sold to us by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this increase are being remitted to Treasury to fund the payroll tax cut. We pay these fees to Treasury on a quarterly basis and refer to this fee increase as the legislated 10 basis point increase in guarantee fees. In the fourth quarter of 2012, both we and Fannie Mae implemented, at FHFA's direction, a further increase in guarantee fees on single-family mortgages of an average of 10 basis points.

In December 2013, FHFA announced a number of additional changes to our (and Fannie Mae's) guarantee fee rates that were scheduled to become effective in March and April of 2014. In January 2014, FHFA announced that it was delaying the implementation of these changes.

Securitization Activities

We primarily issue and guarantee PCs, and REMICs and Other Structured Securities. Except for our participation in the NIBP, we have not completed an Other Guarantee Transaction in our Single-family Guarantee segment in several years. See "Our Business — Overview of the Mortgage Securitization Process" for additional information about our securitization activities.

Single-Family PC Trust Documents

We establish trusts for all of our issued PCs pursuant to our PC master trust agreement. In accordance with the terms of our PC trust documents, we have the option, and in some instances the requirement, to remove specified mortgage loans from the applicable trust. To remove these loans, we pay the trust an amount equal to the current UPB of the mortgage loan, less any outstanding advances of principal that have been distributed to PC holders. Our payments to the trust are distributed to the PC holders at the next scheduled payment date.

We have the option to remove a mortgage loan from a PC trust under certain circumstances to resolve an existing or impending delinquency or default. Since 2010, our practice generally has been to remove substantially all single-family mortgage loans that are 120 days or more delinquent from our issued PCs. From time to time, we reevaluate our practice of removing delinquent loans from PCs and alter it if circumstances warrant.

We are required to remove a mortgage loan (or, in some cases, substitute a comparable mortgage loan) from a PC trust in the following situations:

- if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage;
- if a borrower exercises its option to convert the interest rate from an adjustable-rate to a fixed-rate on a convertible ARM; and
- in the case of balloon-reset loans, shortly before the mortgage reaches its scheduled balloon-reset date.

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The To Be Announced Market
Because our fixed-rate single-family PCs are considered to be homogeneous, and are issued in high volume and are highly liquid, they generally trade on a "generic" basis by PC coupon rate, also referred to as trading in the TBA market. A TBA trade in Freddie Mac securities represents a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered to fulfill the trade obligation, and thus the specific characteristics of the mortgages underlying those PCs, are not known (i.e., "announced") at the time of the trade, but only shortly before the trade is settled. The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission. The Securities Industry and Financial Markets Association publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades. Certain of our PC securities are not eligible for TBA trades, such as those backed by relief refinance mortgages with LTV ratios greater than 105%.
Other Guarantee Commitments
In certain circumstances, we provide our guarantee of mortgage-related assets held by third parties, in exchange for a management and guarantee fee, without our securitization of the related assets. For example, we provide long-term standby commitments to certain of our single-family customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements.
Underwriting Requirements and Quality Control Standards
We use a process of delegated underwriting for the single-family mortgage loans we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage eligibility and underwriting standards, and the seller/servicers represent and warrant to us that the mortgage loans sold to us meet these standards. In our contracts with individual seller/servicers, we may waive or modify selected underwriting standards. Through our delegated underwriting process, mortgage loans and the borrowers' ability to repay the loans are evaluated using a number of critical risk characteristics, including, but not limited to, the borrower's credit score and credit history, the borrower's monthly income relative to debt payments (or DTI), the original LTV ratio, the type of mortgage product, the property type and market value, and the occupancy type of the loan. Our single-family loans are generally underwritten with a requirement for a maximum original LTV ratio of 95% (excluding jumbo conforming, cash-out refinance, and HARP mortgages). We prescribe maximum LTV ratio limits of 80% for cash-out refinance loans and 90% for jumbo conforming mortgages.
Due to adverse market and economic conditions, and based in part on our reviews of the underwriting quality for loans originated in 2005 through 2007, we implemented several credit limits since 2008. These credit limits are defined by specified criteria such as the LTV ratio, credit score and DTI ratio. For documentation to substantiate assets and income, we require the borrower to provide at least one paystub, one IRS Form W-2, and one current bank statement. FICO scores are the most commonly used credit scores today. FICO scores are ranked on a scale of approximately 300 to 850 points. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.
The majority of our single-family mortgage purchase volume is evaluated using automated underwriting software, either our proprietary software (Loan Prospector), the seller/servicers' own software, or Fannie Mae's proprietary software. The percentage of our single-family mortgage purchase volume (acquired under purchase volume agreements and excluding HARP and other relief refinance loans) evaluated by the loan originator using Loan Prospector prior to being purchased by us was 45% and 55% during 2013 and 2012, respectively. Beginning in 2009, we added a number of additional credit standards for loans evaluated by other underwriting software to improve the quality of loans we purchase that are evaluated using such other software. In addition, we monitor the performance of loans delivered to us that were underwritten using underwriting software other than Loan Prospector to determine whether the performance is in line with our risk tolerance.
As part of our quality control process, we review the underwriting documentation for certain loans we have purchased for compliance with our standards. In recent years, we have worked actively with our seller/servicers to improve loan underwriting quality. We give our seller/servicers an opportunity to appeal ineligible loan determinations in response to our request for the repurchase of the loan. For the last two years, we have required certain of our larger seller/servicers to maintain ineligible loan rates below a stated threshold (generally 5%), with financial consequences

for non-compliance. In addition, for all of our largest seller/servicers, we actively manage the current quality of loan originations by providing monthly communications regarding loan defect rates and the causes of those defects as identified in our performing loan quality control sampling reviews. If necessary, we work with seller/servicers to develop an appropriate plan of corrective action.

Through 2012, for loans with identified underwriting deficiencies, we required either immediate repurchase or allowed performing loans to remain in our portfolio subject to our continued right to issue a repurchase request to the seller at a later date. Depending on our evaluation of counterparty financial strength, certain sellers are eligible for repurchase alternatives, including recourse and indemnification. In 2013, we entered into a number of agreements with our sellers to release certain pools of loans from certain repurchase obligations associated with underwriting deficiencies in exchange for a one-time cash payment.

At the direction of FHFA, we and Fannie Mae revised our representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. Under this new framework, lenders are relieved of certain seller's repurchase obligations for loans that meet specific payment requirements. This includes, subject to certain exclusions, loans with 36 months (12 months for relief refinance mortgages) of consecutive, on-time payments after we purchase them.

Under the new framework, Freddie Mac and Fannie Mae, under the supervision of FHFA, have established consistent standards for:

- conducting quality control reviews earlier in the loan process, generally between 30 to 120 days after loan purchase;
- requiring lenders to submit requested loan files for review within specified timelines;
- evaluating loan files on a more comprehensive basis to ensure a focus on identifying significant deficiencies; and
- making available more transparent appeals processes for lenders to appeal repurchase requests.

Additionally, we use tools and available data to help us identify potentially defective loans prior to purchasing them.

The changes to the representation and warranty process are key elements of the seller/servicer contract harmonization project that supported FHFA's strategic plan for the Freddie Mac and Fannie Mae conservatorships announced in 2012.

In addition to representations and warranties for underwriting, our seller/servicers are required to service loans in accordance with our guidelines. Similar to seller violations, we can require servicers to repurchase loans or provide alternative remedies in the case of servicing violations. For certain servicing violations, we typically first issue a notice of defect and allow the servicer a period of time to correct the problem. If the servicing violation is not corrected, we then may issue a repurchase request. For breaches of servicing violations related to loans that have proceeded through foreclosure and REO sale or other workouts (e.g. short sales), we will accept reimbursement for realized credit losses in lieu of repurchase.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Single-Family Mortgage Seller/Servicers."

Credit Enhancements

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. Generally, in order to file a claim under a primary mortgage insurance policy, the insured loan must be in default and the borrower's interest in the underlying property must have been extinguished, such as through a short sale or foreclosure action. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount.

For some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements. Other types of credit enhancements that we use are lender recourse (under which we may require a lender to repurchase a loan upon default), indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), collateral pledged by lenders, and subordinated security structures. Lender recourse and indemnification agreements are typically entered into contemporaneously with the purchase of a mortgage loan as an alternative to requiring primary mortgage insurance on the loan or in exchange for a lower guarantee fee on the loan.

We executed three transactions during 2013 that provide us with partial credit protection on certain groups of loans in our New single-family book. These transactions are intended to shift mortgage credit risk from us to private investors. The transactions include two structured agency credit risk (STACR) debt note transactions in which we issued unsecured debt securities that reduced our exposure to credit risk, as illustrated below:

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Risk Transfer - STACR® (Debt Issuance)

STACR debt notes allow us to transfer a mezzanine loss position on recently acquired single-family mortgage loans to third parties that invest in the issued notes. In a STACR debt note transaction, we create a reference pool consisting of recently acquired single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine, and senior). We issue STACR debt notes (which relate to the mezzanine loss position) to investors. We are obligated to make payments of principal and interest on the STACR debt notes. The principal balance of the STACR debt notes is reduced when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, this may reduce the total amount of payments we ultimately make on the STACR debt notes. However, principal reductions will first occur on the first loss position (which is retained by us) until it is fully reduced before the STACR debt notes begin participating in reductions to the principal balances. The interest rate on STACR debt is generally higher than on our other unsecured debt securities due to the potential for reductions to its principal balance.

In 2013, we also executed a second type of risk transfer transaction in which we purchased an insurance policy on a portion of the mezzanine loss position that was not issued in the first STACR debt transaction. Under this insurance policy, we pay monthly premiums that are determined based on the outstanding balance of the STACR debt reference pool and we receive compensation upon the occurrence of specified credit events (such as a loan becoming 180 days delinquent) up to an aggregate limit determined in the contract.

Our use of certain types of credit enhancements to reduce our exposure to mortgage credit risk generally increases our exposure to institutional credit risk. See "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk" for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including information about our mortgage loan insurers.

Single-Family Loan Workouts and the MHA Program

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgages and provides alternatives to foreclosure. Our single-family loss mitigation activities include providing our single-family servicers with default management programs designed to help them manage non-performing loans more effectively and to assist borrowers in maintaining home ownership where possible, or facilitate foreclosure alternatives when continued homeownership is not an option. We require our single-family seller/servicers to first evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure.

Our loan workouts include:

- Forbearance agreements, where reduced payments or no payments are required during a defined period, generally less than one year. They provide additional time for the borrower to return to compliance with the original terms of the

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mortgage or to implement another loan workout. During 2013, the average time period granted for completed short-term forbearance agreements was between two and three months.

- Repayment plans, which are contractual plans to make up past due amounts. These plans assist borrowers in returning to compliance with the original terms of their mortgages. During 2013, the average time period granted for completed repayment plans was between two and six months.
- Loan modifications, which may involve changing the terms of the loan, or adding outstanding indebtedness, such as delinquent interest, to the UPB of the loan, or a combination of both. During 2013, we granted principal forbearance but did not utilize principal forgiveness for our loan modifications. Principal forbearance is a change to a loan's terms to designate a portion of the principal as non-interest-bearing and non-amortizing. A borrower may only receive one HAMP modification; however, a loan may generally be modified twice (although only once during a 12 month period) under our standard loan modification program or once under our streamlined modification program. However, we reserve the right to approve additional non-HAMP loan modifications to the same borrower, based on the borrower's individual facts and circumstances.
- Short sale and deed in lieu of foreclosure transactions.

We participate in the MHA Program, which is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts, and set market standards. Participation in the MHA Program is an integral part of our mission of providing stability to the housing market. Through our participation in this program, we help borrowers maintain home ownership. Some of the key initiatives of this program include HAMP and HARP, which are discussed below. See "MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-family Mortgage Credit Risk — Single-Family Loan Workouts and the MHA Program" for additional information about our loan workout activities, as well as HARP and our relief refinance mortgage initiative.

Home Affordable Modification Program

Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP requires that each borrower complete a trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. Trial periods are required to be at least three months. After the final trial-period payment is received by our servicer, the borrower and the servicer will enter into the modification. HAMP is available for loans originated on or before January 1, 2009. The program is scheduled to end with trial period plan effective dates on or before March 1, 2016 and modification effective dates on or before September 1, 2016.

The guidelines for HAMP were revised effective June 1, 2010 to address certain underwriting issues experienced in the beginning of the program. Since that date, we have experienced a significantly better modification completion rate under the program. When a borrower's trial period is canceled, the loan is considered for our other workout activities.

HAMP includes the following features:

- Under HAMP, the goal is to reduce the borrower's monthly mortgage payments to 31% of gross monthly income, which may be achieved through a combination of methods, including interest rate reductions, term extensions, and principal forbearance. Although HAMP allows the use of principal reduction to achieve reduced payments for borrowers, we have only used forbearance and have not used principal reduction in modifying our loans.
- Borrowers whose loans are modified through HAMP accrue monthly incentive payments (in the form of credits) that are applied annually to reduce up to $1,000 of their principal per year, for five years, as long as they are making timely payments under the modified loan terms. Servicers are paid incentive fees for each completed HAMP modification. We bear the costs of borrower incentive payments and servicer incentive fees for our HAMP loans, without reimbursement of such costs from Treasury.

We are the compliance agent for Treasury for certain foreclosure avoidance activities under HAMP by mortgage holders other than Freddie Mac and Fannie Mae. Among other duties, as the program compliance agent, we conduct examinations and review servicer compliance with the published requirements for the program.

Non-HAMP Modifications

Similar to HAMP, our non-HAMP standard loan modification initiative also requires a three-month trial period. The standard modification offers eligible borrowers an extension of the loan's term to 480 months and a fixed interest rate. Similar to HAMP modifications, servicers are paid incentive fees for each completed non-HAMP modification.

Unlike with HAMP modifications, our non-HAMP standard modification does not provide for borrower incentive payments.

In March 2013, as part of the servicing alignment initiative, we announced a new streamlined modification initiative, which provides an additional modification opportunity to certain borrowers who are at least 90 (but not more than 720) days delinquent. Borrowers are not required to apply for assistance or provide income or hardship documentation. This modification requires a three-month trial period and offers eligible borrowers the same mortgage terms as the non-HAMP standard modification. This initiative was implemented in July 2013 (with earlier adoption permitted), and is scheduled to end in December 2015.

Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program

Our relief refinance opportunities, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), are a significant part of our effort to keep families in their homes. Our relief refinance initiative began in 2009 and is designed to provide eligible homeowners an opportunity to refinance their mortgage without obtaining new mortgage insurance in excess of what was already in place. Our relief refinance initiative enables us to assist homeowners by making their mortgage payments more affordable by employing one or more of the following changes: (a) a reduction in payment; (b) a reduction in interest rate; (c) movement to a more stable mortgage product type (i.e., from an adjustable-rate mortgage to a fixed-rate mortgage); or (d) a reduction in amortization term.

The relief refinance mortgage initiative, including HARP, originally permitted eligible borrowers with Freddie Mac mortgages (that were originated on or before May 31, 2009) and LTVs up to 125% to refinance their mortgages. We implemented a number of changes to HARP and the relief refinance mortgage initiative in late 2011 and during 2012. These changes included: (a) removing the 125% LTV ratio ceiling for fixed-rate mortgages; and (b) relieving the lenders of certain representations and warranties on the original mortgage being refinanced. In addition, in April 2013, we extended HARP to December 31, 2015, at the direction of FHFA.

Relief refinance mortgages (including HARP loans) generally present higher risk to us than other refinance loans we have purchased since 2009. However, relief refinance mortgages (including HARP loans) generally have performed better than loans with similar characteristics remaining in our single-family credit guarantee portfolio that were originated prior to 2009. For more information, see "MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Loan Workouts and the MHA Program — Relief Refinance Mortgage Initiative and Home Affordable Refinance Program."

Servicing Alignment Initiative

Under the servicing alignment initiative, we made a number of changes to our single-family loan workout activities to align with Fannie Mae, including the non-HAMP standard loan modification and the streamlined modification initiatives, a new standard short sale process (implemented in late 2012) and a new deed in lieu of foreclosure process (implemented in early 2013). During 2013, we and Fannie Mae further aligned certain standards for servicing non-performing loans owned or guaranteed by the companies pursuant to the FHFA-directed servicing alignment initiative. We believe that the servicing alignment initiative will continue to: (a) change, among other things, the way servicers communicate and work with troubled borrowers; (b) bring greater consistency and accountability to the servicing industry; and (c) help more distressed homeowners avoid foreclosure. We have provided standards to our servicers under this initiative that require them to initiate earlier and more frequent communication with delinquent borrowers, employ consistent requirements for collecting documents from borrowers, and follow consistent timelines for responding to borrowers and for processing foreclosures.

Under these new servicing standards, we pay various incentives to servicers for completing workouts of problem loans. We also assess compensatory fees if servicers do not achieve certain benchmarks with respect to servicing delinquent loans. Incentive fees paid to servicers and compensatory fees received from servicers are recorded in other expenses and other income, respectively, within our consolidated statements of comprehensive income. These incentives may result in our payment of increased fees to our seller/servicers, the cost of which may be partially mitigated by the compensatory fees paid to us by our servicers that do not perform as required.

For more information regarding credit risk, see "MD&A — RISK MANAGEMENT — Credit Risk," "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES," and "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS."

Investments Segment

The Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments; (b) managing the treasury function, including funding and liquidity, for the overall company; and (c) managing interest-rate risk for the overall company.

Management of the company's mortgage-related investments portfolio, excluding investments held by the Multifamily segment, primarily consists of:

- Managing agency mortgage-related securities, including PCs and REMICs, issued by Freddie Mac, Fannie Mae, and Ginnie Mae. Our activities may include outright purchases and sales, dollar roll transactions, and structuring existing agency securities into REMICs and selling some or all of the tranches.
- Managing single-family performing loans obtained through our cash purchase program. We purchase loans from lenders for cash and, in conjunction with the single-family business, securitize the majority of these loans into Freddie Mac agency securities that may be sold to dealers or investors or retained in our mortgage investments portfolio as agency securities.

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- Managing single-family re-performing loans and performing modified loans. This includes securitizing loans, and could include selling loans or other disposition strategies in the future.
- Managing single-family delinquent loans along with the single-family business. This includes removing seriously delinquent loans from PC pools and could include selling loans, securitizing loans, or other disposition strategies in the future.
- Reducing the overall balance of our holdings of non-agency mortgage-related securities through liquidations and sales, subject to a variety of constraints, including market conditions.

Managing the treasury function, including funding and liquidity, for the overall company primarily consists of funding the company's investments in mortgage loans, mortgage-related securities and other assets and its business activities, primarily through the issuance of short-term and long-term unsecured debt. We maintain a liquidity and contingency portfolio of cash and non-mortgage investments for short-term liquidity management.

Managing interest-rate risk for the overall company primarily consists of using derivatives, primarily interest-rate swaps and options, and unsecured debt to manage the interest rate exposure of the company's mortgage-related investments portfolio, including investments held by the Multifamily segment. In addition to hedging the interest-rate risk of this portfolio, the Investments segment manages the buy-ups and float that are generated from the Single-family Guarantee segment after initial loan acquisition.

Our Customers

Within our core business, our unsecured debt securities are initially purchased by dealers and redistributed to their customers, including insurance companies, money managers, central banks, depository institutions, and pension funds. Our customers under our mortgage loan cash purchase program are a variety of lenders, as discussed in "Single-Family Guarantee Segment — Our Customers."

Our Competition

Our competitors are firms that invest in mortgage-related assets, purchase mortgage loans, and issue corporate debt. As a result, we have a variety of principal competitors, including Fannie Mae, REITs, supranationals (international institutions that provide development financing for member countries), commercial and investment banks, dealers, thrift institutions, insurance companies, and the FHLBs.

Market Presence and PC Support Activities

From time to time, we may undertake various activities in an effort to support: (a) our presence in the agency securities market; or (b) the liquidity and price performance of our PCs relative to comparable Fannie Mae securities. These activities may include the purchase and sale of agency securities, purchases of loans, and dollar roll transactions, as well as the issuance of REMICs and Other Structured Securities. Depending upon market conditions, there may be substantial variability in any period in the total amount of securities we purchase or sell. In some cases, purchasing or selling agency securities could adversely impact our security performance. While we may employ a variety of strategies in an effort to support the liquidity and price performance of our PCs and may consider additional strategies, any such strategies may fail or adversely affect our business or we may cease such activities if deemed appropriate. For more information about our efforts to support the liquidity and relative price performance for PCs, see "Our Business — Overview of the Mortgage Securitization Process."

We incur costs in connection with our efforts to support our presence in the agency securities market or the liquidity and price performance of our PCs, including engaging in transactions that yield less than our target rate of return. We may increase, reduce or discontinue these or other related activities at any time, which could affect our market presence or the liquidity and price performance of our PCs. For more information, see "RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates."

Multifamily Segment

Our Multifamily segment provides liquidity to the multifamily market and supports a consistent supply of affordable rental housing by purchasing and securitizing mortgage loans secured by properties with five or more units. The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase multifamily

mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. With this model, we utilize securitization to substantially reduce our credit risk while providing liquidity to the multifamily market. Historically, we were primarily a buy and hold investor in multifamily mortgage assets (both loans held for investment and investment securities, primarily CMBS), but while these legacy investments continue to be significant, we have not focused on this investment strategy since 2009.
The multifamily property market is affected by local and regional economic factors, such as employment rates, construction cycles, preferences for homeownership versus renting, and relative affordability of single-family home prices, all of which influence the supply and demand for multifamily properties and pricing for apartment rentals. Our multifamily loan

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volume is largely sourced through established institutional channels where we are generally providing post-construction financing to larger apartment project operators with established performance records.

Our underwriting decisions are largely based on the assessment of the property's ability to provide rents that will generate sufficient operating cash flows to support payment of debt service obligations (both principal and interest) as measured by the expected DSCR and the loan amount relative to the value of the property as measured by the LTV ratio. Multifamily mortgages generally are without recourse to the borrower (i.e., the borrower is not liable for any deficiency remaining after foreclosure and sale of the property), except in the event of fraud or certain other specified types of default. Therefore, repayment of the mortgage depends on the ability of the underlying property to generate cash flows sufficient to cover the related debt obligations. That, in turn, depends on conditions in the local rental market, local and regional economic conditions, the physical condition of the property, the quality of property management, and the level of operating expenses.

Our Customers

We acquire our multifamily mortgage loans from a network of approved seller/servicers. For 2013, our top two multifamily sellers, CBRE Capital Markets, Inc. and Berkadia Commercial Mortgage, LLC, each accounted for more than 10%, and together accounted for approximately 36%, of our multifamily new business volume. Our top 10 multifamily lenders represented an aggregate of approximately 77% of our multifamily purchase volume for 2013.
A significant portion of our multifamily mortgage loans are serviced by several of our large customers. See "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Seller/Servicers" for additional information.

Our Competition

In the Multifamily segment, we compete on the basis of: (a) price; (b) products, including our use of certain securitization structures; and (c) service. Our principal competitors are Fannie Mae, FHA, commercial and investment banks, CMBS conduits, dealers, thrift institutions, and life insurance companies.

Underwriting Requirements and Quality Control Standards

Our process and standards for underwriting multifamily mortgages differ from those used for single-family mortgages as we use a prior approval underwriting approach on loans we purchase or guarantee. With this approach, we maintain our credit discipline by completing our own underwriting and credit review for each newly-originated multifamily loan prior to purchasing it. This process includes review of third-party appraisals and cash flow analysis. Our underwriting standards focus on loan quality measurement based, in part, on the LTV ratio and DSCR. The DSCR estimates a multifamily borrower's ability to service its mortgage obligation using the secured property's cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its mortgage obligation. Our standards for multifamily loans specify maximum original LTV ratio and minimum DSCR that vary based on the loan characteristics, such as loan type (new acquisition or supplemental financing), loan term (intermediate or longer-term), and loan features (interest-only or amortizing, fixed- or variable-rate). Our multifamily loans are generally underwritten with requirements for a maximum original LTV ratio of 80% and a DSCR of greater than 1.25 (which for interest-only and partial interest-only loans is based on an assumed monthly payment that reflects amortization of principal). In certain circumstances, our standards for multifamily loans allow for certain types of loans to have an original LTV ratio over 80% and/or a DSCR of less than 1.25, typically where this will serve our mission and contribute to achieving our affordable housing goals. In addition to DSCR and LTV ratio, we consider other qualitative factors, such as borrower experience and the strength of the local market, in the credit decision we make on each loan.
Multifamily seller/servicers make representations and warranties to us about the mortgage and about certain information submitted to us in the underwriting process. We have the right to require that a seller/servicer repurchase a multifamily mortgage for which there has been a breach of representation or warranty. However, because of our evaluation of underwriting information for most multifamily properties prior to purchase, repurchases have been rare.
We generally require multifamily seller/servicers to service mortgage loans they have sold to us in order to mitigate potential losses. This includes property monitoring tasks beyond those typically performed by single-family servicers.
We are the master servicer for loans in our multifamily mortgage portfolio, except those we securitize (i.e., K Certificates) since we transfer the master servicing responsibilities to the trustees on behalf of the bondholders in

accordance with the securitization and trust documents. For unsecuritized loans over $1 million in our portfolio, servicers must generally submit an annual assessment of the mortgaged property to us based on the servicer's analysis of the property as well as the borrower's quarterly financial statements. In situations where a borrower or property is in distress, the frequency of communications with the borrower may be increased. Because the activities of multifamily seller/servicers are an important part of our loss mitigation process, we rate their performance regularly and may conduct on-site reviews of their servicing operations in an effort to confirm compliance with our standards.

Loss Mitigation Activities

For loans for which we are the master servicer, if a borrower is in distress, we may offer a workout option to the borrower. For example, we may modify the terms of a multifamily mortgage loan (e.g., providing a short-term loan extension of up to 12 months), which gives the borrower an opportunity to bring the loan current and retain ownership of the property. These arrangements are made with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement.

Securitization Activities

We primarily securitize mortgage loans through Other Guarantee Transactions (i.e., K Certificates) in our multifamily business. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. These housing revenue bonds are collateralized by mortgage loans on low- and moderate-income multifamily housing developments. We refer to these transactions as Other Structured Securities. See "Our Business — Overview of the Mortgage Securitization Process" for additional information about our securitization activities.

From time to time, we may undertake various activities in an effort to support the liquidity of our K Certificates. These activities are similar to those described above in "Investments Segment — Market Presence and PC Support Activities."

Other Guarantee Commitments

In certain circumstances, we provide our guarantee of mortgage-related assets held by third parties, in exchange for a management and guarantee fee, without our securitization of the related assets. For example, we guarantee the payment of principal and interest on certain tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. In addition, during 2010 and 2009, we issued guarantees under the TCLFP on securities backed by HFA bonds as part of the HFA Initiative (certain of which are still outstanding). See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative" for further information.

Conservatorship and Related Matters

We have been operating under conservatorship, with FHFA acting as our Conservator, since September 6, 2008. The conservatorship and related matters have had a wide-ranging impact on us, including our management, business, financial condition and results of operations.

In connection with our entry into conservatorship, we entered into the Purchase Agreement with Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock. We refer to the Purchase Agreement and the warrant as the "Treasury Agreements." By their terms, the Purchase Agreement, senior preferred stock and warrant will continue to exist even if we are released from the conservatorship. For a description of certain risks to our business relating to the conservatorship and Treasury Agreements, see "RISK FACTORS — Conservatorship and Related Matters."

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan outlined how FHFA, as Conservator, intends to guide us and Fannie Mae over the next few years, and identified the strategic goals of (a) building a new infrastructure for the secondary mortgage market; (b) gradually contracting Freddie Mac and Fannie Mae's dominant presence in the marketplace while simplifying and shrinking their operations; and (c) maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. In March 2012, FHFA began instituting annual Conservatorship Scorecards that establish objectives, performance targets and measures, and provide the implementation roadmap for FHFA's strategic plan.

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. In recent years, the Federal Reserve has purchased significant amounts of mortgage-related securities issued by us, Fannie Mae, and Ginnie Mae.

The conservatorship, the Purchase Agreement and the senior preferred stock and warrant issued to Treasury have materially limited the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock) and had a number of adverse effects on our common and preferred stockholders. See "RISK FACTORS — Conservatorship and Related Matters — The conservatorship and investment by Treasury has had, and will

continue to have, a material adverse effect on our common and preferred stockholders."
Supervision of Our Company During Conservatorship
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 of Freddie Mac with respect to Freddie Mac and its assets. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, which is also acting as our Conservator.
During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and to management to conduct business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator. The Conservator retains the authority to withdraw or

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revise its delegations of authority at any time. The Conservator also retained certain significant authorities for itself, and did not delegate them to the Board. For more information on limitations on the Board's authority during conservatorship, see "DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE — Authority of the Board and Board Committees."

Because the Conservator succeeded to the powers, including voting rights, of our stockholders, who therefore do not currently have voting rights of their own, we have not held stockholders' meetings (or prepared or provided proxy statements for the solicitation of proxies) since we entered into conservatorship, nor do we expect to do so while we are under conservatorship.

We describe the powers of our Conservator in further detail below under "Powers of the Conservator."

Impact of Conservatorship and Related Actions on Our Business

We conduct our business subject to the direction of FHFA as our Conservator. While the conservatorship has benefited us through, for example, improved access to the debt markets because of the support we receive from Treasury, we are also subject to certain constraints on our business activities imposed by Treasury due to the terms of, and Treasury's rights under, the Purchase Agreement.

The Conservator continues to determine, and direct the efforts of the Board of Directors and management to address, the strategic direction for the company. While the Conservator has delegated certain authority to management to conduct business operations, many management decisions are subject to review and approval by FHFA and Treasury. In addition, management frequently receives directions from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we received from the Conservator (including the 2013 Conservatorship Scorecard). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. However, some of our initiatives are expected to have an adverse impact on our near- and long-term financial results. In 2013, the Conservator required us to contract our presence in specific ways in the mortgage market and simplify our operations. The Conservator also stated that it is focusing on retaining value in the business operations of Freddie Mac and Fannie Mae, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed. Given the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions and our public mission, we may be required to take additional actions that could have a negative impact on our business, operating results or financial condition, and thus could contribute to a need for additional draws under the Purchase Agreement.

For more information on the impact of conservatorship and our current business objectives, see "Executive Summary — Our Primary Business Objectives," "RISK FACTORS — Conservatorship and Related Matters — We are under the control of FHFA, and our business activities are subject to significant restrictions. We may be required to take actions that materially adversely affect our business and financial results," and "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS."

Limits on Investment Activity and Our Mortgage-Related Investments Portfolio

Our mortgage-related investments portfolio consists of agency securities, single-family non-agency mortgage-related securities, CMBS, housing revenue bonds, and single-family and multifamily unsecuritized mortgage loans. Our ability to acquire and sell mortgage assets is significantly constrained by limitations under the Purchase Agreement and those imposed by FHFA. Under the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the portfolio reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio could not exceed $553 billion as of December 31, 2013 and may not exceed $470 billion as of December 31, 2014. FHFA has indicated that such portfolio reduction targets should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, while indicating that the pace of reducing the portfolio may be moderated by conditions in the housing and financial markets.

In addition, the 2013 Conservatorship Scorecard included a goal to reduce the December 31, 2012 mortgage-related investments portfolio balance by selling 5%, or $15.7 billion in UPB, of mortgage-related assets (exclusive of agency securities, multifamily loans classified as held-for-sale, and single-family loans purchased for cash). We sold $16.8 billion of these assets and FHFA has stated that we met this scorecard goal for 2013. The reduction in the mortgage-related investments portfolio will result in a decline in income from this portfolio over time.

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

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Table 2 — Mortgage-Related Investments Portfolio[1]

	December 31, 2013	December 31, 2012
	(in millions)	
Investments segment — Mortgage investments portfolio	$331,071	$375,924
Single-family Guarantee segment — Single-family unsecuritized mortgage loans[2]	37,726	53,333
Multifamily segment — Mortgage investments portfolio	92,227	128,287
Total mortgage-related investments portfolio	$461,024	$557,544

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Represents unsecuritized seriously delinquent single-family loans.

The UPB of our mortgage-related investments portfolio at December 31, 2013 was $461.0 billion, a decline of 17% compared to $557.5 billion at December 31, 2012. The reduction in UPB resulted primarily from liquidations (i.e., principal repayments) and is consistent with our efforts to reduce the size of our mortgage-related investments portfolio as described above.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on two categories: (a) single-class and multiclass agency securities; and (b) assets that are less liquid than agency securities. Assets that we consider to be less liquid than agency securities include unsecuritized performing single-family mortgage loans, multifamily mortgage loans, CMBS, housing revenue bonds, unsecuritized seriously delinquent and modified single-family mortgage loans which we removed from PC trusts, and our investments in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans. Our less liquid assets collectively represented approximately 60% of the UPB of the portfolio at December 31, 2013, compared to 62% at December 31, 2012.

Powers of the Conservator

Under the GSE Act, the conservatorship provisions applicable to Freddie Mac are based generally on federal banking law. As discussed below, FHFA has broad powers when acting as our Conservator. For more information on the GSE Act, see "Regulation and Supervision."

General Powers of the Conservator

Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac 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.

Under the GSE Act, the Conservator may take any actions it determines are necessary to put us in a safe and solvent condition and appropriate to carry on our business and preserve and conserve our assets and property. The Conservator's powers include the ability to transfer or sell any of our assets or liabilities (subject to certain limitations and post-transfer notice provisions) without any approval, assignment of rights or consent of any party. The GSE Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held by the Conservator for the beneficial owners of the trust and cannot be used to satisfy our general creditors.

We remain liable for all of our obligations relating to our outstanding debt and mortgage-related securities. FHFA has stated that our obligations will be paid in the normal course of business during the conservatorship.

Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts

The Conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the GSE Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the Conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. Such rights in connection with qualified financial contracts that arise solely by reason of, or incidental to, the appointment of a receiver may be exercised only after: (a) 5:00 p.m. on the business day following the receiver's appointment; or (b) notice to such person that such contract has been transferred by the receiver to another person. The term qualified financial contract means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement, and any similar agreement as determined by FHFA by regulation, resolution or order.

Modification of Statutes of Limitations

Under the GSE Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the Conservator is: (a) for claims relating to a contract, the longer of six years or the applicable period under state law; and (b) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues.

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Treatment of Breach of Contract Claims

Under the GSE Act, any final and unappealable judgment for monetary damages against the Conservator for breach of an agreement executed or approved in writing by the Conservator will be paid as an administrative expense of the Conservator.

Attachment of Assets and Other Injunctive Relief

Under the GSE Act, the Conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate.

Treasury Agreements

Treasury entered into several agreements with us in connection with our entry into conservatorship, as described below.

Purchase Agreement, Senior Preferred Stock, and Common Stock Warrant

Purchase Agreement

On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. Pursuant to the Purchase Agreement, on September 8, 2008 we issued to Treasury: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. However, deficits in our net worth have made it necessary for us to make substantial draws on Treasury's funding commitment under the Purchase Agreement. As a result, the aggregate liquidation preference of the senior preferred stock has increased from $1.0 billion as of September 8, 2008 to $72.3 billion at December 31, 2013. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the initial commitment from Treasury to provide up to $100 billion (subsequently increased to $200 billion and further increased as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012) in funds to us under the terms and conditions set forth in the Purchase Agreement. As of December 31, 2013, the amount of available funding remaining under the Purchase Agreement was $140.5 billion. This amount will be reduced by any future draws.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury's funding commitment as then in effect. However, as long as the net worth sweep dividend provisions described below under "Senior Preferred Stock" remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had previously waived the fee for all prior quarters.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury's commitment. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement.

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances: (a) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (b) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (c) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase

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Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (a) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (b) the lesser of: (i) the deficiency amount; and (ii) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends.

Senior Preferred Stock

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement (and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury) will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances.

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. Under the net worth sweep dividend, our dividend obligation 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. For more information regarding our net worth sweep dividend, see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS."

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (a) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (b) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of: (a) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (b) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

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Common Stock Warrant

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

Covenants Under Treasury Agreements

The Purchase Agreement and warrant contain covenants that significantly restrict our business activities. For example, as a result of these covenants, we can no longer obtain additional equity financing (other than pursuant to the Purchase Agreement) and we are limited in the amount and type of debt financing we may obtain.

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
- terminate the conservatorship (other than in connection with a receivership);
- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with our liquidation by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;
- issue any subordinated debt;
- enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
- engage in transactions with affiliates unless the transaction is: (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant; (b) upon arm’s length terms; or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

These covenants generally also apply to our subsidiaries.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own, as described in "Limits on Investment Activity and our Mortgage-Related Investments Portfolio." Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain of our Other Guarantee Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

The warrant we issued to Treasury includes, among others, the covenant that we may not, without the prior written consent of Treasury, permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights to any person other than Freddie Mac or its wholly-owned subsidiaries.

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, which was modified substantially by the Reform Act. We are also subject to certain regulation by other government agencies.

Federal Housing Finance Agency

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FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae and the FHLBs. In the discussion below, we refer to Freddie Mac and Fannie Mae as the “enterprises.” Under the GSE Act, FHFA has safety and soundness authority that is comparable to, and in some respects, broader than that of the federal banking agencies.

FHFA is responsible for implementing the various provisions of the GSE Act that were added by the Reform Act. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made.

Receivership

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including critical undercapitalization.

On June 20, 2011, FHFA published a final rule that addresses conservatorship and receivership operations of Freddie Mac, Fannie Mae and the FHLBs. The final rule establishes a framework to be used by FHFA when acting as conservator or receiver, supplementing and clarifying statutory authorities. Among other provisions, the final rule indicates that FHFA will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the final rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of a subsequent receivership and that capital distributions may not be made during conservatorship, except as specified in the final rule.

Capital Standards

FHFA suspended capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA-directed regulatory capital requirements are not binding during the conservatorship. We continue to provide our submission to FHFA on minimum capital. These capital standards are described in "NOTE 18: REGULATORY CAPITAL." Under the GSE Act, FHFA has the authority to increase our minimum capital levels or to establish additional capital and reserve requirements for particular purposes.

In September 2013, FHFA released a final rule that will require FHFA-regulated entities to conduct annual stress tests to determine whether such companies have sufficient capital to absorb losses as a result of adverse economic conditions. Under the rule, Freddie Mac is required to: (a) conduct annual stress tests using scenarios specified by FHFA that reflect a minimum of three sets of economic and financial conditions (baseline, adverse, and severely adverse); and (b) beginning in 2014, publicly disclose the results of the stress test under the “severely adverse” scenario. For additional information, see “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock” and “RISK FACTORS — Legal and Regulatory Risks.”

New Products

The GSE Act requires the enterprises to obtain the approval of FHFA before initially offering any product (including new mortgage products), subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice of any new activity that we consider not to be a product. While FHFA has published an interim final rule on prior approval of new products, it has stated that permitting us to engage in new products is inconsistent with the goals of conservatorship and instructed us not to submit such requests under the interim final rule. This could have an adverse effect on our business and profitability in future periods.

Affordable Housing Goals

We are subject to annual affordable housing goals. In light of these housing goals, we may make adjustments to our mortgage loan sourcing and purchase strategies, which could potentially increase our credit losses. These strategies could include entering into some purchase and securitization transactions with lower expected economic returns than our typical transactions. We have at times relaxed some of our underwriting criteria to obtain goal-qualifying mortgage loans and made additional investments in higher risk mortgage loan products that we believed were more likely to serve the borrowers targeted by the goals, but have not done so to a significant extent since we entered into conservatorship. In February 2010, the then Acting Director of FHFA stated that FHFA does not intend for us to undertake uneconomic or high risk activities in support of the housing goals nor does it intend for the state of conservatorship to be a justification for withdrawing our support from these market segments.

If the Director of FHFA finds that we failed to meet a housing goal and that achievement of the housing goal was feasible, the GSE Act states that the Director may require the submission of a housing plan with respect to the housing goal for

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approval by the Director. The housing plan must describe the actions we would take to achieve the unmet goal in the future. FHFA has the authority to take actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by FHFA; or (b) fail to submit certain data relating to our mortgage purchases, information or reports as required by law. See "RISK FACTORS — Legal and Regulatory Risks — We may make certain changes to our business in an attempt to meet our housing goals and subgoals."

FHFA has established four goals and one subgoal for single-family owner-occupied housing, one multifamily special affordable housing goal, and one multifamily special affordable housing subgoal. Three of the single-family housing goals and the subgoal target purchase money mortgages for: (a) low-income families; (b) very low-income families; and/or (c) families that reside in low-income areas. The single-family housing goals also include one that targets refinancing mortgages for low-income families. The multifamily special affordable housing goal targets multifamily rental housing affordable to low-income families. The multifamily special affordable housing subgoal targets multifamily rental housing affordable to very low-income families.

The single-family goals are expressed as a percentage of the total number of eligible mortgages underlying our total single-family mortgage purchases. The multifamily goals are expressed in terms of minimum numbers of units financed.

The single-family goals include: (a) an assessment of performance as compared to the actual share of the market that meets the criteria for each goal; and (b) a benchmark level to measure performance. Where our performance on a single-family goal falls short of the benchmark for a goal, we still could achieve the goal if our performance meets or exceeds the actual share of the market that meets the criteria for the goal for that year. For example, if the actual market share of mortgages to low-income families relative to all mortgages originated to finance owner-occupied single-family properties is lower than the 23% benchmark rate, we would still satisfy this goal if we achieve that actual market percentage.

Affordable Housing Goals for 2013 and 2014

FHFA's affordable housing goals for Freddie Mac for 2013 and 2014 are set forth below. FHFA has not yet issued the affordable housing goals for 2015.

Table 3 — Affordable Housing Goals for 2013 and 2014

	Goals for 2013		Goals for 2014	
Single-family purchase money goals (benchmark levels):				
Low-income	23	%	23	%
Very low-income	7	%	7	%
Low-income areas[1]	21	%	TBD	
Low-income areas subgoal	11	%	11	%
Single-family refinance low-income goal (benchmark level)	20	%	20	%
Multifamily low-income goal (in units)	215,000		200,000	
Multifamily low-income subgoal (in units)	50,000		40,000	

(1) FHFA will annually set the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For 2013, FHFA set the benchmark level at 21%.

We expect to report our performance with respect to the 2013 affordable housing goals in March 2014. At this time, based on preliminary information, we believe we met the single-family purchase money low-income areas subgoal, the single-family refinance low-income goal and both multifamily goals for 2013, but believe we failed to meet the FHFA benchmark level for the other single-family goals. In such cases, FHFA regulations allow us to achieve a goal if our qualifying share matches that of the market, as measured by the Home Mortgage Disclosure Act. Because the Home Mortgage Disclosure Act data for 2013 will not be released until September 2014, FHFA will not be able to make a final determination on our performance until that time. If we fail to meet both the FHFA benchmark level and the market level, we may enter into discussions with FHFA concerning whether these goals were infeasible under the terms of the GSE Act, due to market and economic conditions and our financial condition. We view the purchase of mortgage loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business and we are committed to facilitating the financing of affordable housing for low- and moderate-income families.

Duty to Serve Underserved Markets

The GSE Act establishes a duty for Freddie Mac and Fannie Mae to serve three underserved markets (manufactured housing, affordable housing preservation and rural areas) by developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low- and moderate-income families in those markets. Effective for 2010 and subsequent years, FHFA is required to establish a process for annually: (a) evaluating whether and to what extent Freddie Mac and Fannie Mae have complied with the duty to serve underserved markets; and (b) rating the extent of compliance.

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In June 2010, FHFA published in the Federal Register a proposed rule regarding the duty of Freddie Mac and Fannie Mae to serve the underserved markets. FHFA has not yet issued a final rule. We cannot predict the content of any such final rule, or the impact that the final rule will have on our business or operations.

Affordable Housing Goals and Results for 2011 and 2012

In October 2013, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2012, and determined that we achieved all of our housing goals.

Our housing goals and results for 2011 and 2012 are set forth in the table below.

Table 4 — Affordable Housing Goals and Results for 2011 and 2012

	Goals for 2011	Market Level for 2011 (1)	Results for 2011 (2)	Goals for 2012	Market Level for 2012 (1)	Results for 2012
Single -family purchase money goals (benchmark levels):						
Low-income	27 %	26.5 %	23.3 %	23 %	26.6 %	24.4 %
Very low-income	8 %	8.0 %	6.6 %	7 %	7.7 %	7.1 %
Low-income areas(3)	24 %	22.0 %	19.2 %	20 %	20.5 %	20.6 %
Low-income areas subgoal	13 %	11.4 %	9.2 %	11 %	13.6 %	11.4 %
Single -family refinance low-income goal (benchmark level)	21 %	21.5 %	23.4 %	20 %	22.3 %	22.4 %
Multifamily low-income goal (in units)	161,250	N/A	229,001	225,000	N/A	298,529
Multifamily low-income subgoal (in units)	21,000	N/A	35,471	59,000	N/A	60,084

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

(2) We failed to achieve any of the four single-family purchase money goals for 2011. FHFA did not require us to submit a housing plan for the goals that we did not achieve in 2011.

(3) FHFA annually sets the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For 2011 and 2012, FHFA set the benchmark level for the low-income areas goal at 24% and 20%, respectively.

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points (or 0.042%) of each dollar of the UPB of total new business purchases, and allocate or transfer such amount to: (a) HUD to fund a Housing Trust Fund established and managed by HUD; and (b) a Capital Magnet Fund established and managed by Treasury. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. In November 2008, FHFA advised us that it has suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund until further notice. For more information, see "LEGAL PROCEEDINGS."

Prudential Management and Operations Standards

FHFA has established prudential standards relating to the management and operations of Freddie Mac, Fannie Mae, and the FHLBs. The standards address a number of business, controls, and risk management areas. The standards specify the possible consequences for any entity that fails to meet any of the standards or otherwise fails to comply (including submission of a corrective plan, limits on asset growth, increases in capital, limits on dividends and stock redemptions or repurchases, a minimum level of retained earnings or any other action that the FHFA Director determines will contribute to bringing the entity into compliance with the standards). In addition, a failure to meet any standard also may constitute an unsafe or unsound practice, which may form the basis for FHFA initiating an administrative enforcement action.

Portfolio Activities

The GSE Act provides FHFA with power to regulate the size and content of our mortgage-related investments portfolio. The GSE Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with the enterprises' mission and safe and sound operations. In establishing these criteria, FHFA must consider the ability of the enterprises to provide a liquid secondary market through securitization activities, the portfolio holdings in relation to the mortgage market and the enterprises' compliance with the prudential management and operations standards prescribed by FHFA.

On December 28, 2010, FHFA issued a final rule adopting the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement. See "Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio" for additional information on restrictions on our portfolio activities.

Anti-Predatory Lending

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Predatory lending practices are in direct opposition to our mission, goals, and practices. We instituted anti-predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. These policies include processes related to the origination, delivery and validation of loans sold to us. In addition to the purchase policies we instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

Subordinated Debt

FHFA directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. In addition, the requirements in the agreement we entered into with FHFA in September 2005 with respect to issuance, maintenance, and reporting and disclosure of Freddie Mac subordinated debt have been suspended during the term of conservatorship and thereafter until directed otherwise. See “NOTE 18: REGULATORY CAPITAL — Subordinated Debt Commitment” for more information regarding subordinated debt.

Department of Housing and Urban Development

HUD has regulatory authority over Freddie Mac with respect to fair lending. Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders with which we do business and requires us to undertake remedial actions against such lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the anti-discrimination provisions of the GSE Act.

Department of the Treasury

Treasury has significant rights and powers with respect to our company as a result of the Purchase Agreement. In addition, under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. In addition, our charter authorizes Treasury to purchase Freddie Mac debt obligations not exceeding $2.25 billion in aggregate principal amount at any time.

Securities and Exchange Commission

We are subject to the reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Although our common stock is required to be registered under the Exchange Act, we continue to be exempt from certain federal securities law requirements, including the following:

- Securities we issue or guarantee are “exempted securities” under the Securities Act and may be sold without registration under the Securities Act;
- We are excluded from the definitions of “government securities broker” and “government securities dealer” under the Exchange Act;
- The Trust Indenture Act of 1939 does not apply to securities issued by us; and
- We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an “agency, authority or instrumentality” of the U.S. for purposes of such Acts.

Legislative and Regulatory Developments

We discuss certain significant legislative and regulatory developments below. For more information regarding these and other legislative and regulatory developments that could impact our business, see “RISK FACTORS — Conservatorship and Related Matters” and “— Legal and Regulatory Risks.”

Legislation Related to Freddie Mac and its Future Status

Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. Congress continues to hold hearings and consider legislation on the future state of Freddie Mac, Fannie Mae and the housing finance system. Recent developments are discussed below.

In June 2013, the "Let the GSEs Pay Us Back Act of 2013" was introduced in the House of Representatives. The bill would amend Freddie Mac and Fannie Mae's Purchase Agreements with Treasury to:

- terminate the dividends on the senior preferred stock;

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- treat the funds received by a GSE from Treasury under the Purchase Agreement (including funds received prior to the amendment) as a fully amortizing loan from Treasury to the GSE with a maturity of 30 years and an annual interest rate of 5%; and
- credit the dividends previously paid by a GSE on the senior preferred stock as payments of principal and interest under such loan.

In June 2013, the “Housing Finance Reform and Taxpayer Protection Act of 2013” was introduced in the Senate with bi-partisan co-sponsors. The bill would substantially alter the current housing finance system. Among other things, the bill would:

- require the wind down of Freddie Mac and Fannie Mae. The companies’ charters would be repealed within five years of enactment (except for charter provisions relating to the rights of holders of the companies’ outstanding debt and mortgage-backed security obligations), and the companies would then not have authority to conduct new business. A full faith and credit U.S. government guarantee would be extended to the then outstanding debt obligations of the companies and mortgage-backed securities guaranteed by the companies;
- require that any proceeds from the wind down go first to the holders of Freddie Mac's and Fannie Mae’s senior preferred stock, then preferred shareholders and then common shareholders, with the amount of proceeds to be paid to these shareholders to be determined by the U.S. government;
- set certain requirements relating to the disposition of the functions, activities, infrastructure and property of Freddie Mac and Fannie Mae; and
- decrease conforming loan limits in high cost areas and require the gradual reduction of Freddie Mac's and Fannie Mae’s retained mortgage portfolios.

In July 2013, the “Protect American Taxpayers and Homeowners Act of 2013” was approved by the House Financial Services Committee. The bill would also substantially alter the current housing finance system. Among other things, the bill would:

- require FHFA to place Freddie Mac and Fannie Mae into receivership within five years of enactment (or potentially longer, in certain circumstances). The companies’ charters would be repealed at that time (except for charter provisions relating to the rights of holders of the companies’ outstanding debt and mortgage-backed security obligations), and the companies would then not have authority to conduct new business. A full faith and credit U.S. government guarantee would be extended to the then outstanding debt obligations of the companies and mortgage-backed securities guaranteed by the companies; and
- place certain restrictions on Freddie Mac's and Fannie Mae’s activities prior to being placed into receivership, including decreasing conforming loan limits in high cost areas, gradually reducing the size of Freddie Mac's and Fannie Mae’s retained mortgage portfolios to $250 billion each, and requiring the companies to enter into additional risk sharing transactions to cover at least 10% of their new single-family business each year. Under the bill, the companies would likely be required to increase their guarantee fees.

In addition, bills were introduced in the Senate in 2013 that focus on preventing the use of Freddie Mac and Fannie Mae guarantee fees to offset government spending. For example, the Jumpstart GSE Reform Act would bar any increase in guarantee fees charged by Freddie Mac and Fannie Mae to offset government spending, and would prohibit the sale of the senior preferred stock by Treasury without Congressional approval and other structural reform. In addition, the Senate passed a 2014 budget resolution that established certain procedural requirements designed to make it more difficult to use Freddie Mac and Fannie Mae guarantee fees to offset other government spending.

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

For more information, see “RISK FACTORS — Conservatorship and Related Matters — The future status and role of Freddie Mac are uncertain.”

FHFA’s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan set forth objectives and steps FHFA is taking or will take to meet FHFA’s obligations as Conservator. In March 2012, FHFA began instituting annual Conservatorship Scorecards for us and Fannie Mae that establish objectives, performance targets and measures, and provide the implementation roadmap for the strategic plan.

FHFA's plan provides lawmakers and the public with an outline of how FHFA as Conservator intends to guide Freddie Mac and Fannie Mae over the next few years, and identifies three strategic goals:

- Build. Build a new infrastructure for the secondary mortgage market.
- Contract. Gradually contract Freddie Mac's and Fannie Mae's dominant presence in the marketplace while simplifying and shrinking their operations.
- Maintain. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

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For information about the 2013 Conservatorship Scorecard, and our performance with respect to it, see "EXECUTIVE COMPENSATION — Compensation Discussion and Analysis."

Administration Report on Reforming the U.S. Housing Finance Market

On February 11, 2011, the Administration delivered a report to Congress that lays out the Administration's plan to reform the U.S. housing finance market, including options for structuring the government's long-term role in a housing finance system in which the private sector is the dominant provider of mortgage credit. The report recommends winding down Freddie Mac and Fannie Mae, stating that the Administration will work with FHFA to determine the best way to responsibly reduce the role of Freddie Mac and Fannie Mae in the market and ultimately wind down both institutions. The report states that these efforts must be undertaken at a deliberate pace, which takes into account the impact that these changes will have on borrowers and the housing market.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Administration's belief that under the companies' senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration's plan.

Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the regulation of the financial services industry, including by creating new standards related to regulatory oversight of systemically important financial companies, derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. The Dodd-Frank Act has directly affected and will continue to directly affect the business and operations of Freddie Mac by subjecting us to new and additional regulatory oversight and standards, including with respect to our activities and products. We may also be affected by provisions of the Dodd-Frank Act and implementing regulations that affect the activities of other financial services entities that are our customers and counterparties.

Implementation of the Dodd-Frank Act is being accomplished through numerous rulemakings, some of which are still in process, and some of which only recently became effective. Accordingly, it is difficult to assess fully the impact of the Dodd-Frank Act on Freddie Mac and the financial services industry at this time. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues, which could lead to additional legislation or regulatory changes.

Recent developments with respect to Dodd-Frank rulemakings that may have a significant impact on Freddie Mac include the following:

- CFPB final rules: The Consumer Financial Protection Bureau, or CFPB, adopted a number of final rules in early 2013 relating to mortgage origination, finance, and servicing practices. The rules generally went into effect in January 2014. The rules include an ability-to-repay rule, which requires mortgage originators to make a reasonable and good faith determination that a borrower has a reasonable ability to repay the loan according to its terms. This rule provides certain protection from liability for originators making loans that satisfy the definition of a qualified mortgage. In May 2013, FHFA directed Freddie Mac and Fannie Mae to limit future single-family acquisitions to loans that are qualified mortgages under applicable CFPB regulations, including those mortgages meeting the special or temporary qualified mortgage definition for us and Fannie Mae, as the case may be. The directive generally restricts us and Fannie Mae from acquiring loans that are: (a) not fully amortizing; (b) have a term greater than 30 years; or (c) have points and fees in excess of 3% of the total loan amount.

Other rules address consumer protection and high cost mortgages, mortgage servicing, escrow accounts, loan origination compensation, and appraisals. These rules will, individually and in combination, significantly change many aspects of the mortgage industry and may affect us both directly and indirectly. Examples of indirect effects include possible changes in pricing and other practices by customers and counterparties, which could cause the volume of mortgage originations to decline, which would in turn adversely affect our business and financial results. Some of these changes could slow the rate of foreclosures and result in significant changes to mortgage servicing and foreclosure practices that could adversely affect our business. In addition, mortgage originators and assignees, including Freddie Mac, may be subject to increased legal risk for loans that do not meet the requirements of the new rules.

- Credit risk retention proposed rule: In August 2013, six agencies, including FHFA, jointly proposed a rule concerning credit risk retention. This rule revises a 2011 proposal that would implement the credit risk retention requirements of the Dodd-Frank Act. The rule generally would require a securitizer of asset-backed securities to retain no less than five percent of the credit risk of the assets underlying such securities. The rule would provide an exemption from this requirement for asset-backed securities collateralized exclusively by qualified residential mortgages (or “QRMs”), and would define a QRM by reference to the definition of a “qualified mortgage” under the Truth in Lending Act. The proposal also requests comment on an alternative definition of QRM that would significantly reduce the number of

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loans that would qualify as QRM. As in the 2011 proposal, Freddie Mac's fully guaranteed securitizations generally would satisfy the risk retention requirements for so long as we are in conservatorship or receivership and receiving federal financial support. This exemption would not apply to securitization structures that are not fully guaranteed. Under the proposal, the effective date of any final risk retention rule with respect to residential mortgage securitizations will be one year after such rule is finalized.

We continue to review and assess the impact of rulemakings and other activities under the Dodd-Frank Act. For more information, see "RISK FACTORS — Legal and Regulatory Risks — Legislative or regulatory actions could adversely affect our business activities and financial results."

Financial Crimes Enforcement Network's Anti-money Laundering Final Rule

On February 20, 2014, the Financial Crimes Enforcement Network finalized its regulations that will require Freddie Mac to establish a written anti-money laundering program, file suspicious activity reports with the Network, and comply with certain statutory and regulatory information sharing procedures. These regulations may require operational changes, as they differ in certain respects from the regulations we are currently subject to concerning the reporting of fraudulent financial instruments.

FHFA Advisory Bulletin

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin"), which is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. Among other requirements, this Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any credit enhancements, as a "loss" no later than when the loan becomes 180 days delinquent, except in certain specified circumstances (such as those involving properly secured loans with an LTV ratio equal to or less than 60%). For multifamily loans, the Advisory Bulletin requires that any portion of a loan balance that exceeds the amount secured by the fair value of the collateral, less costs to sell, for which there is no available and reliable source of repayment other than the sale of the underlying real estate collateral, to be classified as a "loss." The Advisory Bulletin also requires us to charge off the portion of the loan classified as a "loss." The Advisory Bulletin specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses. In May 2013, FHFA issued an additional Advisory Bulletin clarifying the implementation timeline for AB 2012-02, requiring that: (a) the asset classification provisions of AB 2012-02 should be implemented by January 1, 2014; and (b) the charge-off provisions of AB 2012-02 should be implemented no later than January 1, 2015.

We establish an allowance for loan losses against our loans either through our collective loss reserve or our loss reserve for individually impaired loans. Thus, at the time single-family loans become 180 days delinquent, we have already established an allowance for loan losses against them. The Advisory Bulletin requires us to change our practice for determining when a loan is deemed uncollectible to the date the loan is classified as a "loss" as described above. This is a change from our current practice for determining when a loan is deemed to be uncollectible, which is based on historical data and results in a loan being deemed to be uncollectible at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale).

In the period in which we adopt the Advisory Bulletin, our allowance for loan losses on the impacted loans will be eliminated and the corresponding recorded investment in the loan will be reduced by the amounts that are charged off. Under our existing accounting practices and upon adoption of the Advisory Bulletin, the ultimate amount of losses we realize on our loan portfolio will be the same over time; however, the timing of when we recognize the losses in our financial statements will differ.

We are working with FHFA to consider how the Advisory Bulletin may impact our credit risk management practices. A significant percentage of our modifications are initiated after loans become 180 days delinquent. This is a result of a number of factors, including servicer backlogs, lack of borrower responsiveness to loss mitigation efforts, and extended foreclosure timelines, which affect the willingness of borrowers to engage regarding loss mitigation options. Given the current rate of modification activity after loans become 180 days delinquent, the benefit we expect from borrower re-performance is significant in estimating the losses for this population of loans. In July, we introduced a streamlined modification program, which may accelerate the timing of our modifications; however, we still expect a meaningful amount of modifications to be initiated after our loans become 180 days delinquent. As we obtain incremental information on the performance of this program, we will enhance our loss estimates, as necessary, to reflect the change in the expected timing and volume of modifications.

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We are working with FHFA to resolve certain implementation issues related to our adoption of the Advisory Bulletin. However, we do not expect that the Advisory Bulletin will have a material impact on our financial position or results of operations.

FHFA Request for Public Input on Proposed Gradual Decrease of Loan Limits

On December 16, 2013, FHFA announced that it is requesting public input on the implementation of a plan to gradually reduce the maximum size of single-family mortgage loans that we and Fannie Mae may purchase. In areas where the statutory maximum loan limit for one-unit properties is currently $417,000, FHFA’s plan would set the loan purchase limit at $400,000, which represents a reduction of approximately four percent. The loan purchase limit would be reduced by the same percentage in "higher cost" areas, where current limits can be as high as $625,500. The loan purchase limits in such areas would be no greater than $600,000. Implementation of a decrease in loan limits would, over time, reduce the income we earn from our single-family credit guarantee activities. FHFA has indicated that the contemplated plan is not a final decision.

FHFA Request for Public Input on Reducing Freddie Mac and Fannie Mae Multifamily Businesses

On August 9, 2013, FHFA announced that it is evaluating alternatives for reducing Freddie Mac and Fannie Mae’s presence in the multifamily housing finance market in 2014 and is seeking public input on the potential market impact of various strategies. FHFA stated that the strategies may include:

- Restrictions on available loan terms;
- Simplification and standardization of loan products;
- Limits on property financing;
- Limits on business activities; and,
- Other options that FHFA should consider to contract the enterprises’ multifamily businesses.

Input from the public was due October 8, 2013 in order for FHFA to consider the responses for potential inclusion in our 2014 Conservatorship Scorecard and provide for continued gradual contraction of the GSEs' multifamily business.

Employees

At February 14, 2014, we had 5,053 full-time and 59 part-time employees. Our principal offices are located in McLean, Virginia.

Available Information

SEC Reports

We file reports and other information with the SEC. In view of the Conservator’s succession to all of the voting power of our stockholders, we have not prepared or provided proxy statements for the solicitation of proxies from stockholders since we entered into conservatorship, and do not expect to do so while we remain in conservatorship.

We make available free of charge through our website at www.freddiemac.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. In addition, materials that we file with the SEC are available for review and copying at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC.

We are providing our website addresses and the website address of the SEC here or elsewhere in this Form 10-K solely for your information. Information appearing on our website or on the SEC’s website is not incorporated into this Form 10-K.

Information about Certain Securities Issuances by Freddie Mac

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we are not required to and do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars (or supplements thereto) that we post on our website or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website 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,

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including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt securities is available at www.freddiemac.com/creditsecurities.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations, can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements.

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-K, contain "forward-looking statements." Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for our single-family, multifamily, and investment businesses, our loan workout initiatives and other efforts to assist the housing market, liquidity, capital management, economic and market conditions and trends, market share, the effect of legislative and regulatory developments and new accounting guidance, credit quality of loans we own or guarantee, and results of operations and financial condition on a GAAP, Segment Earnings, and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as "objective," "expect," "possible," "trend," "forecast," "anticipate," "believe," "intend," "could," "future," "may," "will," and similar phrases. These statements are not historical facts 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 this Form 10-K, and:

- the actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to further support the housing recovery or to implement FHFA's strategic plan for us and Fannie Mae;
- the effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend obligation on the senior preferred stock;
- our ability to maintain adequate liquidity to fund our operations, including following any changes in the support provided to us by Treasury, or any changes in our credit ratings or those of the U.S. government;
- changes in our charter or in applicable legislative or regulatory requirements (including any legislation on the future status of our company), or in the regulation of the housing finance and financial services industries;
- changes in the fiscal and monetary policies of the Federal Reserve, including the effect of the tapering of its program of purchasing mortgage-related securities and any future sales of such securities;
- the extent of our success in our efforts to mitigate our losses on our Legacy single-family books and our investments in non-agency mortgage-related securities;
- the adequacy of our operating systems and infrastructure, and our ability to maintain the security of such systems and infrastructure;
- changes in accounting standards, or in our accounting policies or estimates;
- changes in economic and market conditions, including changes in employment rates, interest rates, yield curves, mortgage and debt spreads, and home prices;
- changes in the U.S. residential mortgage market, including changes in the supply and type of mortgage products (e.g., refinance versus purchase, and fixed-rate versus ARM);
- our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- our ability to recruit and retain executive officers and other key employees;
- the adequacy of our risk management framework, internal control over financial reporting, and disclosure controls and procedures;
- the failure of our customers, vendors, service providers, and counterparties to fulfill their obligations to us;
- our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;
- our ability to manage interest-rate and other market risks, including the availability of derivative financial instruments needed for risk management purposes;
-

- changes or errors in the methodologies, models, assumptions and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);
- adverse judgments or settlements in connection with judicial or regulatory proceedings;
- changes in the practices of loan originators, investors and other participants in the secondary mortgage market;

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- the occurrence of a major natural or other disaster in areas in which our offices or portions of our total mortgage portfolio are concentrated; and
- other factors and assumptions described in this Form 10-K, including in the "MD&A" section.

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

ITEM 1A. RISK FACTORS

Investing in our securities involves risks, including the risks described below and in "BUSINESS," "MD&A," and elsewhere in this Form 10-K. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

Conservatorship and Related Matters

The future status and role of Freddie Mac are uncertain.

There is significant uncertainty about our future status and role and we could be materially adversely affected by legislative and regulatory action that alters the ownership, structure, and mission of the company. The then Acting Director of FHFA stated on November 15, 2011 that "the long-term outlook is that neither [Freddie Mac nor Fannie Mae] will continue to exist, at least in its current form, in the future." Future legislation will likely materially affect the role of the company, our business model, our structure, and future results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company or at all. If any of these events were to occur, our shares could further diminish in value, or cease to have any value, and there can be no assurance that our stockholders would receive any compensation for such loss in value.

Several bills were introduced in Congress in 2013 concerning the future status of Freddie Mac, Fannie Mae, and the mortgage finance system, including bills which provide for the wind down of Freddie Mac and Fannie Mae. The Administration (as discussed in its February 2011 report to Congress) has recommended reducing the role of Freddie Mac and Fannie Mae and ultimately winding down both companies.

The conservatorship is indefinite in duration and the timing, conditions, and likelihood of our emerging from conservatorship are uncertain. Termination of the conservatorship (other than in connection with receivership) also requires Treasury's consent under the Purchase Agreement. There can be no assurance as to when, and under what circumstances, Treasury would give such consent. It is possible that the conservatorship will end with us being placed into receivership. Even if the conservatorship is terminated, we would remain subject to the Purchase Agreement and the senior preferred stock. In addition, because Treasury holds a warrant to acquire almost 80% of our common stock for nominal consideration, the company could effectively remain under the control of the U.S. government even if the conservatorship is ended and the voting rights of common stockholders restored.

During 2013 and 2014, a number of lawsuits were filed against the U.S. government challenging certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. This may add to the uncertainty surrounding our company's future.

For more information, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments."

We may request additional draws under the Purchase Agreement in future periods.

We may request additional draws under the Purchase Agreement in future periods. The need for any such future draws will be determined by a variety of factors that could adversely affect our net worth or our ability to generate comprehensive income, including the following:

- changes in home prices;
- the success of our foreclosure prevention and loss mitigation efforts;
- adverse changes in interest rates, yield curves, implied volatility or mortgage spreads, which could increase realized and unrealized fair value losses recorded in earnings or AOCI;
- reductions in the size of our mortgage-related investments portfolio or required sales of higher yielding assets, and other limitations on our investment activities that reduce our earnings capacity;
- reductions in the maximum UPB of single-family loans we are permitted to purchase or other restrictions on our single-family guarantee activities that could reduce our income from these activities;

- restrictions on the volume of multifamily business we may conduct or other limits on multifamily business activities that could reduce our income from these activities;
- adverse changes in our liquidity or funding costs, or limitations in our access to public debt markets;
- changes in accounting practices or guidance (e.g., implementation of FHFA's April 2012 Advisory Bulletin);

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- effects of the MHA Program and other government initiatives, including any future requirements to reduce the principal amount of loans, which could increase the likelihood of prepayment of mortgages and potentially reduce our net interest income;
- changes in housing or economic conditions, legislation, or other factors that affect our assessment of our ability to realize our net deferred tax asset, and cause us to establish a valuation allowance against our net deferred tax asset; or
- changes in business practices resulting from legislative and regulatory developments or direction from our Conservator.

We do not have the authority over the long term to build and retain capital from the earnings generated by our business operations, as a result of the net worth sweep dividend. This increases the likelihood of draws in future periods, particularly as the permitted Capital Reserve Amount (which is $2.4 billion for 2014) declines over time. Additional draws under the Purchase Agreement will increase the liquidation preference of the senior preferred stock, which was $72.3 billion as of December 31, 2013. In addition, draws we take for deficits in our net worth will reduce the amount of available funding remaining under the Purchase Agreement, which was $140.5 billion as of December 31, 2013. Additional draws and corresponding increases in the already substantial liquidation preference, along with limited flexibility to redeem the senior preferred stock, may add to the uncertainty regarding our long-term financial sustainability.

We are under the control of FHFA, and our business activities are subject to significant restrictions. We may be required to take actions that materially adversely affect our business and financial results.

We may be required to undertake activities that are unprofitable, costly to implement, expose us to additional credit and other risks, or that otherwise adversely affect our business over the short- or long-term. We are under the control of FHFA, as our Conservator, and are not managed to maximize stockholder returns. FHFA determines the strategic direction of our company. FHFA has changed our business objectives significantly since we entered into conservatorship, and could make additional changes at any time. We are also subject to significant restrictions under the Purchase Agreement and senior preferred stock. Other agencies of the U.S. government, as well as Congress, also could require us to take actions that adversely affect our business and financial results.

FHFA has required us to make changes to our business that have adversely affected our financial results, and may require us to make additional changes in the future. For example, FHFA is requiring us to contract our presence in the mortgage market and simplify our operations. These actions will adversely affect our profitability over the long term. FHFA also may require us to provide additional support for the mortgage market in a manner that serves our public mission, but that adversely affects our financial results, such as by engaging in more expensive loss mitigation efforts. From time to time, FHFA and Treasury have prevented us from engaging in business activities or transactions that we believe would benefit our business and financial results, and may do so in the future. FHFA may require us to engage in activities that are operationally difficult to implement. FHFA, as our Conservator, could also take a number of actions that could materially adversely affect our company, such as reducing the maximum UPB of single-family loans we are permitted to purchase or limiting the amount of securities we could sell for liquidity management purposes. Significant strategy changes, either from FHFA or Treasury, could have an adverse impact on the earnings of our business.

We currently face a variety of different, and potentially competing, business objectives and new FHFA-mandated activities (e.g., the initiatives we are pursuing under the 2013 Conservatorship Scorecard). It may be difficult for us to devote sufficient resources and management attention to these multiple priorities, some of which present significant operational challenges to us. See "BUSINESS — Executive Summary — Our Primary Business Objectives" for more information.

The Purchase Agreement and terms of the senior preferred stock include significant restrictions on our ability to manage our business, including limitations on the amount of indebtedness we may incur, the size of our mortgage-related investments portfolio, and the circumstances in which we may pay dividends, transfer certain assets, raise capital, and pay down the liquidation preference on the senior preferred stock. These limitations could have a material adverse effect on our future results of operations and financial condition. Over the long-term, as a result of the net worth sweep dividend provisions of the senior preferred stock, we do not have the authority to build and retain capital from the earnings generated by our business operations and will not be able to build or retain any net worth surplus or return capital to stockholders other than Treasury. In deciding whether or not to consent to any request for approval it receives from us under the Purchase Agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. The warrant held by Treasury, the restrictions on our business contained in the Purchase Agreement, and the senior status and net worth dividend provisions of the senior preferred stock issued to Treasury under the Purchase Agreement also could adversely affect our ability to attract new private sector capital in the future should the company be in a position to seek such capital.

Our regulator may, and in some cases must, place us into receivership, which would result in the liquidation of our assets; if this occurs, there may not be sufficient funds to pay the claims of the company, repay the liquidation preference of our preferred stock, or make any distribution to the holders of our common stock.

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We could be put into receivership at the discretion of the Director of FHFA at any time for a number of reasons, including critical undercapitalization. In addition, FHFA could be required to place us in receivership if Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth. Treasury might not be able to provide the requested funding if, for example, the U.S. government were shut down or if the U.S. government reached its borrowing limit and, as a result, Treasury was unable to obtain funds sufficient to cover the request. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Receivership."

A receivership would terminate the conservatorship. The appointment of FHFA as our receiver would terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter arising as a result of their status as stockholders or creditors, other than the potential ability to be paid upon our liquidation. Unlike conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of receivership is to liquidate our assets and resolve claims against us. Bills pending in Congress provide for Freddie Mac to eventually be placed into receivership.

In the event of a liquidation of our assets, there can be no assurance that there would be sufficient proceeds to pay the secured and unsecured claims of the company, repay the liquidation preference of any series of our preferred stock or make any distribution to the holders of our common stock. To the extent that we are placed into receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-related securities, such holders could become unsecured creditors of ours with respect to claims made under our guarantee. Only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock, which ranks senior to our common stock and all other series of preferred stock upon liquidation, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock.

If we are placed into receivership or no longer operate as a going concern, we would no longer be able to assert that we will realize assets and satisfy liabilities in the normal course of business, and, therefore, our basis of accounting would change to liquidation-based accounting. Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their estimated settlement amounts, which could adversely affect our net worth. In addition, the amounts in AOCI would be reclassified to earnings.

The conservatorship and investment by Treasury has had, and will continue to have, a material adverse effect on our common and preferred stockholders.

The market price for our common stock and publicly traded classes of preferred stock declined substantially after we entered into conservatorship. As a result, the investments of our common and preferred stockholders lost substantial value, which they may never recover. Our shares could further diminish in value, and they are not likely to have any value in the longer-term. In November 2011, the then Acting Director of FHFA stated that "[Freddie Mac and Fannie Mae's] equity holders retain an economic claim on the companies but that claim is subordinate to taxpayer claims. As a practical matter, taxpayers are not likely to be repaid in full, so [Freddie Mac and Fannie Mae] stock lower in priority is not likely to have any value."

The conservatorship and investment by Treasury have had, and will continue to have, other material adverse effects on our common and preferred stockholders, including the following:

- No voting rights during conservatorship. The rights and powers of our stockholders are suspended during the conservatorship and our common stockholders do not have the ability to elect directors or to vote on other matters.
- Our future profits will effectively be distributed to Treasury. Under the Purchase Agreement, we are required to pay dividends to the extent that our Net Worth Amount exceeds a permitted Capital Reserve Amount that decreases over time. Accordingly, over the long-term, our future profits will effectively be distributed to Treasury. Therefore, the holders of our common stock and non-senior preferred stock will not receive benefits that would otherwise flow from any such future profits.
- Priority of Senior Preferred Stock. The senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company.
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- Dividends have been eliminated. The Conservator has eliminated dividends on Freddie Mac common and preferred stock (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the Purchase Agreement, dividends may not be paid to common or preferred stockholders (other than on the senior preferred stock) without the consent of Treasury, regardless of whether or not we are in conservatorship.
- Warrant may substantially dilute investment of current stockholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common stockholders will be substantially diluted. Existing common stockholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends.

Competitive and Market Risks

Our level of earnings in recent periods is not sustainable over the long term.

The level of earnings we have experienced in recent periods is not sustainable over the long term. While our recent financial results, particularly our benefit (provision) for credit losses, benefited significantly from strong home price appreciation we are beginning to see moderation in home price growth. In addition, our recent financial results include large benefits related to the release of our deferred tax asset valuation allowance and settlements of residential non-agency mortgage-related securities litigation and claims for breaches of representations and warranties by our sellers. These trends are not expected to continue over the long term. Our settlements with sellers for claims for breaches of representations and warranties primarily related to pre-conservatorship loan activity are largely complete. Our residential non-agency mortgage-related securities litigation is ongoing with many large institutions and we expect additional settlements in 2014. In addition, declines in the size of our mortgage-related investments portfolio, as required by FHFA and the Purchase Agreement, will reduce earnings over time. Our financial results will also continue to be positively or negatively affected by changes in interest rates, yield curves, and mortgage spreads, which can cause significant earnings and net worth variability.

We are subject to significant limitations on our investment activity, including a requirement to reduce the size of our mortgage-related investments portfolio, and significant constraints on our ability to purchase or sell mortgage assets. As it is likely that the overall volume of our business will decline, our debt funding needs will likely also decline. It may become probable that our previously forecasted debt issuances will not occur, resulting in the deferred gain or loss associated with these forecasted transactions being reclassified from AOCI into earnings immediately. In addition, many of our mortgage investments do not trade in a liquid secondary market and the size of our holdings relative to normal market activity is such that, if we were to attempt to sell a significant quantity of these assets, the pricing in such markets could be significantly disrupted and the price we ultimately realize may be materially lower than the value at which we carry these investments on our consolidated balance sheets. We can provide no assurance that the cap on our mortgage-related investments portfolio will not, over time, force us to sell mortgage assets at unattractive prices or that our current strategies will not have an adverse impact on our business or financial results. For more information, see "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

These limitations will reduce the earnings capacity of our mortgage-related investments portfolio business and require us to place greater emphasis on our guarantee activities to generate revenue. However, under conservatorship, our ability to generate revenue through guarantee activities may be limited for a number of reasons, including that we may be required to adopt business practices that provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives, but that may negatively impact our future financial results. In addition, the overall volume of our guarantee business will likely decline over time, as one of FHFA's goals is to contract our presence in the mortgage market. We generally must obtain FHFA's approval to implement across-the-board price increases in our guarantee business, and there can be no assurance FHFA will approve any such increase requests in the future. The combination of the restrictions on our business activities and our potential inability to generate sufficient revenue through our guarantee activities to offset the effects of those restrictions may have an adverse effect on our results of operations and financial condition.

Our single-family credit guarantee and multifamily mortgage portfolios are subject to mortgage credit risks, including mortgage credit risk relating to off-balance sheet arrangements; credit costs related to these risks could adversely affect our financial condition and/or results of operations.

Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee, exposing us to the risk of credit losses and credit-related expenses. We are primarily exposed to mortgage credit risk with respect to the single-family and multifamily loans and securities that we own or guarantee and hold on our consolidated balance sheets. We are also exposed to mortgage credit risk with respect to securities and guarantee arrangements that are not reflected as assets on our consolidated balance sheets. These relate primarily to: (a) Freddie Mac mortgage-related securities backed by multifamily loans (e.g., K Certificates we guarantee); (b) certain single-family Other Guarantee Transactions; and (c) other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We expect our credit losses to remain elevated for the near term due to the large number of single-family non-performing loans that will likely be resolved. We also continue to have significant amounts of mortgage loans in our single-family credit guarantee portfolio with certain characteristics, such as Alt-A loans, interest-only loans, option ARM loans, loans with original LTV ratios greater than 90%, and loans where borrowers had FICO scores less than 620 at the time of origination, that expose us to greater credit risk than do other types of mortgage loans. See "Table 43 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio" for more information.

Our loan loss reserves do not reflect the total of all future credit losses we will ultimately incur with respect to the single-family and multifamily mortgage loans we currently own or guarantee. Rather, pursuant to GAAP, our reserves only reflect probable losses we believe we have already incurred as of the balance sheet date. Accordingly, it is likely that the credit losses we ultimately incur on the loans we currently own or guarantee will exceed the amounts we have already reserved for such loans. If we were to experience another recession or another sharp drop in home prices, it is possible that the credit losses we ultimately incur related to such an event could be larger, perhaps substantially larger, than our current loan loss reserves.

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We use certain credit enhancements to mitigate some of our potential credit losses. However, such credit enhancements may provide less protection than we expect, or otherwise fail to prevent us from incurring credit losses on the related loans. For more information, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Protection and Other Forms of Credit Enhancement."
For more information on our mortgage credit risk with respect to single-family and multifamily loans, see "MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk."

We are exposed to significant credit risk related to the subprime, Alt-A, and option ARM loans that back the non-agency mortgage-related securities we hold in our mortgage-related investments portfolio.
Our investments in non-agency mortgage-related securities include securities that are backed by subprime, Alt-A, and option ARM loans. As of December 31, 2013, we held $59.3 billion in UPB of such securities, which represented approximately 13% of our total mortgage-related investments portfolio. We also hold non-agency mortgage-related securities backed by manufactured housing loans and home equity lines of credit. The credit performance of the loans underlying these non-agency mortgage-related securities has declined since 2007, and although it has stabilized in recent periods, it remains weak. If we were to attempt to sell a significant quantity of these securities, the pricing in such markets could be significantly disrupted and the price we ultimately realize may be materially lower than the value at which we carry these investments on our consolidated balance sheets. The population of non-agency mortgage-related securities that management intends to sell may increase, which would cause us to immediately recognize in earnings any unrealized losses on these securities.
Since 2007, the fair value of these investments has declined significantly, and we have recorded substantial other-than-temporary impairments, both of which have adversely affected our net worth. We may experience additional fair value declines and losses in the future due to a number of factors, including if delinquency and loss rates on the underlying loans increase. The quality of the servicing performed on the underlying loans can significantly affect the performance of these securities, including the timing and amount of losses incurred on the underlying loans and thus the timing and amount of losses we recognize on our securities. Our ability to influence servicing performance is limited. In addition, there is a general lack of transparency in the market for the non-agency mortgage-related securities we hold, and the information disclosed by the trustees of the trusts that issued these securities is not sufficient to allow us to adequately analyze decisions made by servicers that may directly impact the cash flows on such securities. The servicing of the loans is significantly concentrated among several companies, which may increase this risk. Any credit enhancements covering these securities may not prevent us from incurring losses. See "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" for information about these securities and related credit enhancements.
Future declines in U.S. home prices or other adverse changes in the U.S. housing market could negatively impact our business and adversely affect our earnings and equity.
Our financial results and business volumes can be negatively affected by declines in home prices and other adverse changes in the housing market. Although the single-family housing market improved in 2013, our credit losses remained high compared to levels before 2009, in part because home prices have experienced significant cumulative declines in many geographic areas since 2006. While we expect home prices to increase moderately in 2014, there can be no assurance that this will occur.
We prepare internal forecasts of future home prices, which we use for certain business activities, including: (a) hedging prepayment risk; (b) estimating expected costs of new guarantee business; and (c) portfolio activities. If future home prices are lower than our forecasts, this could cause the return we earn on new single-family guarantee business to be less than expected or cause us to incorrectly hedge prepayment and other market risks associated with our mortgage-related investments. This could also result in higher losses due to other-than-temporary impairments on our investments in non-agency mortgage-related securities (which would be recognized in earnings) or fair value declines on our investments in non-agency mortgage-related securities (which would be recognized in AOCI). For more information, see "MD&A — RISK MANAGEMENT — Credit Risk."
Our business volumes (i.e., mortgage loan purchases and guarantee issuances) are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market, and the amount of

new mortgage originations. Total residential mortgage debt declined approximately 0.7% in the first nine months of 2013 (the most recent data available) compared to a decline of approximately 2.5% in 2012.
While the multifamily market has experienced strong rent growth and occupancy trends in the past four years, these trends are not likely to continue at their current pace as apartment fundamentals are already very favorable, with vacancy rates at their lowest level since 2001. New supply of multifamily housing has been increasing in recent periods and could potentially outpace demand, which could result in excess supply and rising vacancy rates. Any softening of multifamily markets could cause delinquencies and credit losses relating to our multifamily activities to increase beyond our current expectations.
We could incur significant losses in the event of a major natural disaster or other catastrophic event.
We own or guarantee mortgage loans and own REO properties throughout the United States. The occurrence of a major natural or environmental disaster or similar catastrophic event in a regional geographic area of the United States could

negatively impact our credit losses and credit-related expenses in the affected area. A catastrophic event that either damages or destroys residential real estate underlying mortgage loans we own or guarantee, or negatively affects the ability of homeowners to continue to make payments on mortgage loans we own or guarantee, could increase our serious delinquency rates and average loan loss severity in the affected region or regions, which could have a material adverse effect on our business and financial results. Such an event could also damage or destroy REO properties we own. We may not have insurance coverage for some of these catastrophic events.

We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our counterparties do not meet their obligations to us.

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations to us. Our important institutional counterparties include seller/servicers, mortgage insurers, and bond insurers, and counterparties to derivatives and short-term lending and other funding transactions.

A significant failure by a major institutional counterparty could harm our business and financial results in a variety of ways, as many of our major counterparties provide several types of services to us. The concentration of our exposure to our counterparties remains high and we continue to face challenges in reducing our risk concentrations with counterparties. Efforts we take to reduce exposure to financially weakened counterparties could concentrate our exposure to other individual counterparties, and increase our costs and reduce our revenue. In recent years, challenging market conditions have, at times, adversely affected the liquidity and financial condition of our counterparties, and some of our major counterparties have failed. Similar events may occur in future periods.

Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us.

We have significant exposure to institutions in the financial services industry relating to derivatives, funding, short-term lending, securities and other transactions. These transactions are critical to our business, including our ability to: (a) manage interest rate and other risks related to our investments in mortgage-related assets; and (b) fund our business operations. In addition to these institutions, we face the risk of operational failure of any of the clearing members, exchanges, clearinghouses, or other financial intermediaries we use to facilitate these transactions. If a clearing member or clearinghouse were to fail, we could experience losses related to any collateral we had posted with such clearing member or clearinghouse to cover initial or variation margin. Similarly, if our counterparties in short-term lending transactions fail, we have exposure to losses if the transaction was unsecured or to the extent the value of the collateral posted to us is insufficient. A failure of any of these various parties could adversely affect our ability to engage in derivatives and other transactions, service our customers, and manage our exposure to interest rate and other risks. We believe all of our derivative portfolio and cash and other investments portfolio counterparties are exposed to fiscally troubled European countries. It is possible that continued adverse developments in the Eurozone could significantly affect such counterparties. In turn, this could adversely affect their ability to meet their obligations to us.

For more information, see “MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Cash and Other Investments Counterparties,” “— Derivative Counterparties” and “— Selected European Sovereign and Non-Sovereign Exposures.”

Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us.

Our seller/servicers have a significant role in servicing loans in our single-family credit guarantee portfolio, as they perform the primary servicing function for us. Therefore, we could be adversely affected if they lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans. Our servicers have an active role in our loss mitigation efforts, and a decline in their performance could impact our credit performance (including through missed opportunities for mortgage modifications), which could adversely affect our financial condition or results of operations and have a significant effect on our ability to mitigate credit losses. The risk of such a decline in performance remains high due to a number of factors, including the continued high volume of seriously delinquent loans and the fact that the servicing function has become significantly more complex in recent years. Any efforts we take to attempt to improve our servicers' performance (such as requiring that they pay us compensatory fees for underperformance) could adversely affect our relationships with such servicers, many of which also sell loans to us.

In recent periods, servicers that specialize in servicing troubled loans have experienced rapid growth in their servicing portfolios, and they now service a large share of our loans. Although the ability of these servicers to service troubled loans may benefit us by reducing our credit losses, the rapid expansion of their servicing portfolios could expose us to increased risks in the event that it results in operational strains that adversely affect their servicing performance or weakens their financial strength.

If a servicer does not fulfill its servicing obligations (including its repurchase or other responsibilities), we may seek to recover the amounts that such servicer owes us, such as by attempting to sell the applicable mortgage servicing rights to a

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different servicer and applying the proceeds to such owed amounts. However, we face the risk that we might not receive a sufficient price for the mortgage servicing rights or that we may be unable to find buyers who are willing to assume the representations and warranties of the former servicer and have sufficient capacity to service the affected mortgages. This option may be difficult to accomplish with respect to our larger seller/servicers due to operational and capacity challenges of transferring a large servicing portfolio.

Our seller/servicers also have a significant role in servicing loans in our multifamily mortgage portfolio. We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us including their monitoring of each property's financial performance and physical condition.

We require seller/servicers to make certain representations and warranties regarding the loans they sell to us and/or service for us. If loans are sold to us in breach of those representations and warranties, we have the contractual right to require the seller/servicer to repurchase those loans from us. We also may have other contractual remedies, including the right to be indemnified against losses on the loans. We have similar rights and remedies with respect to loans they service on our behalf. If a seller/servicer does not satisfy its contractual obligations to us with respect to a loan, we will be subject to the full range of credit risks posed by the loan if the loan fails to perform, including the risk that a mortgage insurer may deny or rescind coverage on the loan (if the loan is insured) and the risk that we will incur credit losses on the loan through the workout or foreclosure process. It may be difficult, expensive, and time-consuming to enforce (through the exercise of contractual remedies, including legal proceedings) a seller/servicer's repurchase obligations, in the event a seller/servicer fails to perform such obligations. As of December 31, 2013, the UPB of loans subject to repurchase requests based on breaches of representations and warranties (related to loans sold to us and/or serviced for us) issued to our single-family seller/servicers was approximately $2.2 billion. During 2013, we entered into a number of agreements with sellers to resolve certain existing and future repurchase obligations, and we may enter into additional agreements with sellers or servicers in the future. The amounts we receive under any such agreements may be less than the losses we ultimately incur.

If, as we expect, there is a decline in origination volume and a change in the mix of originations (refinance vs. purchase) in 2014, the competitive and financial pressures on single-family originators and servicers could increase, and thereby increase our counterparty risk with respect to these entities.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Single-family Mortgage Seller/Servicers" and "— Multifamily Mortgage Seller/Servicers."

Our losses could increase if more of our mortgage or bond insurers become insolvent or fail to perform their obligations to us.

A number of our mortgage insurers (that insure single-family mortgages we purchase or guarantee) and bond insurers (that insure certain of the non-agency mortgage-related securities we hold) are insolvent or are not fully performing their obligations to us. We are exposed to the risk that additional mortgage or bond insurance counterparties could become insolvent or fail to fully perform their obligations to us. The weakened financial condition and liquidity position of many of these counterparties increases the risk that additional entities will fail to fully reimburse us for claims under insurance policies.

As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. Thus, if any of our mortgage insurers fails to fulfill its obligations, we could experience increased credit losses. In addition, if a regulator determined that a mortgage insurer lacked sufficient capital to pay all claims when due, the regulator could take action that might affect the timing and amount of claim payments made to us. A regulator could also restrict an insurer's ability to write new business.

The majority of our mortgage insurance exposure is concentrated in four insurers, certain of which have been under financial stress during the last several years. Our ability to reduce our exposure to individual mortgage insurers is limited, and we continue to acquire significant amounts of new loans with mortgage insurance from mortgage insurers that have credit ratings that are below investment grade. In addition, we expect to receive substantially less than full payment of our mortgage insurance claims from three of our mortgage insurers: Triad Guaranty Insurance Corporation, Republic Mortgage Insurance Company, and PMI Mortgage Insurance Co.

In the event a mortgage insurer falls out of compliance with regulatory capital requirements, it may attempt various strategies (such as a corporate restructuring or raising additional capital) designed to enable it to continue to write new business. There can be no assurance that any such restructuring or recapitalization will enable payment in full of all of our claims in the future.

With respect to bond insurers, if a bond insurer was to become insolvent, it is likely that we would not collect our claims from it. This would affect our ability to recover certain unrealized losses on our investments in non-agency mortgage-related securities, and could contribute to net impairment of available-for-sale securities recognized in earnings. We evaluate the expected recovery from primary bond insurance policies as part of our impairment analysis for our investments in securities. If

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a bond insurer's performance with respect to its obligations on our investments in securities is worse than expected, this could contribute to additional net impairment of those securities.

Some of our larger bond insurers are in runoff mode and are not writing new business. We expect to receive substantially less than full payment from Ambac Assurance Corporation and Financial Guaranty Insurance Company. We believe that we will likely receive substantially less than full payment of our claims from some of our other bond insurers, because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Mortgage Insure and "— Bond Insurers."

The loss of business volume could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of mortgage loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. During 2013, approximately 64% of our single-family mortgage purchase volume was associated with our ten largest customers. Similarly, we acquire a significant portion of our multifamily mortgage loans from several large lenders.

We enter into mortgage purchase commitments with many of our single-family customers that are typically less than one year in duration. The loss of business from any one of our major lenders could adversely affect our market share and our revenues. Many of our seller/servicers also have tightened their lending criteria in recent years, which has reduced their loan volume, thus reducing the volume of loans available for us to purchase.

We are engaged in various loss mitigation and recovery efforts concerning: (a) representation and warranty claims on single-family loans we own or guarantee; and (b) certain of our investments in non-agency mortgage-related securities. Some of these efforts involve litigation against some of our largest single-family customers. These and other loss mitigation and recovery efforts could adversely affect our relationship with any such customer and could, for example, result in the loss of some or all of our business with the customer.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by mortgage insurance or other credit enhancements. Our purchases of mortgages with LTV ratios above 80% (other than relief refinance mortgages) have generally been low in recent years, as compared to 2005 - 2008 levels, in part because mortgage insurers tightened their eligibility requirements with respect to the issuance of insurance on new mortgages with higher LTV ratios. If the availability of mortgage insurance for loans with LTV ratios above 80% is reduced, we may be restricted in our ability to purchase or securitize such loans. This could reduce our overall volume of new business.

Competition from banking and non-banking companies, as well as efforts by FHFA to reduce the GSEs' dominance in the marketplace, may harm our business.

Competition in the secondary mortgage market combined with a decline in the amount of residential mortgage debt outstanding may make it more difficult for us to purchase mortgages. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively affect our financial results. Increased competition from Fannie Mae, Ginnie Mae, FHA/VA, and new entrants may alter our product mix, lower our volumes, and reduce our revenues on new business.

Historically, we also competed with other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. Many of these institutions have ceased or substantially reduced their securitization activities since 2008. However, in recent periods, a number of our non-GSE competitors increased their retention of loans on their balance sheets. In addition, one of FHFA's goals for conservatorship, as set forth in its strategic plan, is to contract our presence in the mortgage market and shrink our operations, and FHFA is taking a number of actions designed to encourage these other financial institutions to return to the mortgage market.

FHFA is also Conservator of Fannie Mae, our primary competitor, and FHFA's actions as Conservator of both companies could affect competition between us and Fannie Mae. It is possible that FHFA could require us and Fannie Mae to take a uniform approach that, because of differences in our respective businesses, could place Freddie Mac at a competitive disadvantage to Fannie Mae. FHFA may also prevent us from taking actions that could provide us with a competitive advantage.

Actions we may take or may be directed to take to reduce the GSEs' dominance of new single-family guarantee business, such as by tightening credit standards or raising guarantee fees, could cause our share of the total mortgage market to decrease and the volume of our single-family guarantee business to decline.
We could be prevented from competing efficiently and effectively by competitors who use their patent portfolios to prevent us from using necessary business processes and products, or to require us to pay significant royalties to use those processes and products.
As multifamily market fundamentals have improved over recent years, more life insurers, banks, CMBS conduits, and other market participants have re-entered or increased their activities in the multifamily market, and as a result we have faced

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increased competition. In addition, FHFA's efforts to decrease our presence in this market (e.g., the requirement to reduce our new multifamily business volume by at least 10% in 2013) could encourage further competition.

Our investment activities may be adversely affected by limited availability of financing and increased funding costs.

The amount, type and cost of our unsecured funding, including financing from other financial institutions and the capital markets, directly affects our interest expense and results of operations. A number of factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, both domestically and internationally, including:

- changes in our government support;
- reduced demand for our debt securities;
- competition for debt funding from other debt issuers; and
- downgrades in our credit ratings or the credit ratings of the U.S. government.

Our ability to obtain funding in the public unsecured debt markets or by pledging mortgage-related securities as collateral to other institutions could cease or change rapidly, and the cost of available funding could increase significantly, due to changes in market confidence and other factors. We may incur costs, including potentially higher funding costs, for our liquidity management practices and procedures and there can be no assurance that such practices and procedures would provide us with sufficient liquidity to meet our ongoing cash obligations under all circumstances. In particular, we believe that our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis or period of significant market turmoil. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired, as our alternative sources of liquidity (e.g., cash and other investments) may not be sufficient to meet our liquidity needs.

Wider spreads could cause a reduction in long-term debt issuances and an increased reliance on short-term debt issuances. Significant issuances of short-term debt could lead to a funding gap between short- and long-term debt and could increase rollover risk (i.e., the risk that we may be unable to refinance our debt when it becomes due), and could increase the use of derivatives and the volatility of reported net income.

Our mortgage-related investments portfolio has contracted significantly since we entered into conservatorship. A significant portion of the assets remaining in the portfolio are those we consider to be less liquid, and our ability to use these assets as a significant source of liquidity (for example, through sales or use as collateral in secured lending transactions) is limited.

We pay cash dividends (known as the net worth sweep dividend) to Treasury on the senior preferred stock on a quarterly basis. The amount of the net worth sweep dividend could vary substantially from quarter to quarter for a number of reasons, including as a result of non-cash changes in net worth. It is possible that, due to non-cash increases in net worth, the amount of our dividend for a quarter could exceed the amount of available cash, which could have an adverse effect on our financial results.

Changes in Government Support

Treasury supports us through the Purchase Agreement and Treasury's ability to purchase up to $2.25 billion of our obligations under its permanent statutory authority. Unlike certain of our competitors, we do not have access to the Federal Reserve's discount window. Changes or perceived changes in the government's support of us could have a severe negative effect on our access to the unsecured debt markets and our debt funding costs. As of December 31, 2013, the amount of available funding remaining under the Purchase Agreement was $140.5 billion. This amount will be reduced by any future draws. While we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the unsecured debt markets and to have adequate liquidity to conduct our normal business activities, our access to the unsecured debt markets and the costs of our debt funding could be adversely affected by a number of factors, including (a) uncertainty about the future of the GSEs; (b) if debt investors believe that the risk that we could be placed into receivership is increasing; and (c) if we were to make significant draws in the future, and thereby significantly reduce the amount of available funding remaining under the Purchase Agreement. For more information, see "MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock."

Demand for Debt Funding

If investor demand for our debt securities were to decrease, our liquidity, business, and results of operations could be materially adversely affected. The willingness of domestic and foreign investors to purchase and hold our debt securities can be influenced by many factors, including changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs could increase and our business activities could be curtailed. The market for our debt securities may become less liquid as our mortgage-related investments portfolio winds down. This could lead to a decrease in demand for our debt securities and an increase in our funding costs.

Competition for Debt Funding

We compete for debt funding with Fannie Mae, the FHLBs, and other institutions. Competition for debt funding from these entities can vary with changes in economic, financial market, and regulatory environments. Increased competition for debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our business, liquidity, financial condition, and results of operations. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Other Debt Securities” for description of our debt issuance programs. Our funding costs and liquidity contingency plans may also be affected by changes in the amount of, and demand for, debt issued by Treasury.

Line of Credit

We maintain a secured intraday line of credit to provide additional intraday liquidity to fund our activities through the Fedwire system. This line of credit requires us to post collateral to the institution providing the line of credit. In certain circumstances, this secured counterparty may be able to repledge the collateral underlying our financing without our consent. In addition, because the secured intraday line of credit is uncommitted, we may not be able to continue to draw on it if and when needed.

Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of funding. Our credit ratings are important to our liquidity. We currently receive ratings from three nationally recognized statistical rating organizations (S&P, Moody’s, and Fitch) for our unsecured borrowings. These ratings are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings of the U.S. government. Any downgrade in the credit ratings of the U.S. government would be expected to be followed or accompanied by a downgrade in our credit ratings.

Our senior long-term debt credit rating was downgraded in 2011 by S&P, following S&P’s downgrade of the credit rating of the U.S. government, and it is possible we could experience further downgrades. S&P, Moody’s, and Fitch have recently indicated that they could take actions on the U.S. government’s ratings if steps toward a credible deficit reduction plan are not taken or if the U.S. experiences a weaker than expected economic recovery. For more information, see “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Credit Ratings.”

In addition to a downgrade in the credit ratings of or outlook on the U.S. government, a number of other events could adversely affect our debt credit ratings, including actions by governmental entities or others, changes in government support for us, future GAAP losses, and additional draws under the Purchase Agreement. Any such downgrades could lead to major disruptions in the mortgage and financial markets and to our business due to lower liquidity, higher borrowing costs, lower asset values, and higher credit losses, and could cause us to experience net losses and net worth deficits.

A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates.

Security performance is one of Freddie Mac’s more significant risks and competitive issues, with both short- and long-term implications. Our PCs are an integral part of our mortgage purchase program. Our competitiveness in purchasing single-family mortgages from our seller/servicers, and thus the volume and/or profitability of our new single-family guarantee business, can be directly affected by the price performance of our PCs relative to comparable Fannie Mae securities.

The profitability of our securitization financing and our ability to compete for mortgage purchases are affected by the price differential between PCs and comparable Fannie Mae securities. Freddie Mac fixed-rate PCs provide for faster monthly remittance of mortgage principal and interest payments to investors than Fannie Mae fixed-rate securities. However, our PCs have typically traded at prices below the level that we believe reflects the full value of their faster remittance cycle, resulting in a pricing discount relative to comparable Fannie Mae securities. This difference in relative pricing creates an economic incentive for customers to conduct a disproportionate share of their single-family business with Fannie Mae and negatively affects the financial performance of our business.

We may be unable to maintain a liquid market for our PCs, which could adversely affect the price performance of PCs and our single-family market share. A significant reduction in our market share, and thus in the volume of mortgage loans that we securitize, could further reduce the liquidity of our PCs. While we may employ a variety of strategies in an effort to support the liquidity and price performance of our PCs and may consider additional strategies, any such strategies may fail or adversely affect our business or we may cease such activities if deemed appropriate. In addition, we believe the liquidity-related price differences between our PCs and comparable Fannie Mae securities are, in part, the result of factors that are largely outside of our control. Thus, while we may employ strategies in an effort to support the liquidity-related price differences, we believe the strategies currently available to us may not reduce or eliminate these price differences over the long-term. A curtailment of mortgage-related investments portfolio purchases, sales, or retention activities may result in a decline in the volume and/or profitability of our new single-family guarantee business, lower comprehensive income, and an accelerated decline in the size of our total mortgage portfolio.

In certain circumstances, we compensate customers for the difference in price between our PCs and comparable Fannie Mae securities, and this could adversely affect the volume and/or profitability of our new single-family guarantee business. We also incur costs in connection with our efforts to support the liquidity and price performance of our PCs, including engaging in transactions that yield less than our target rate of return. For more information, see “BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Securitization Activities” and “— Investment Segment — Market Presence and PC Support Activities.”

The current Multifamily segment business model is highly dependent on the ability of Freddie Mac to finance purchased loans through securitization into K Certificates. A significant decrease in demand for K Certificates over a long period of time could have an adverse impact on the profitability of the Multifamily segment business. We employ a variety of strategies in an effort to support the liquidity of our K Certificates, and may consider additional strategies if deemed appropriate. From time to time, we purchase and sell both guaranteed K Certificates and related unguaranteed CMBS through our mortgage-related investments portfolio.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We rely on representations and warranties by seller/servicers about the characteristics of the single-family mortgage loans we purchase and securitize, and we do not independently verify most of the information that is provided to us before we purchase the loan. This exposes us to the risk that one or more of the parties involved in a transaction (such as the borrower, seller, broker, appraiser, title agent, loan officer, lender or servicer) will engage in fraud by misrepresenting facts about the property underlying the real estate transaction, borrower, or mortgage loan. While we subsequently review a sample of these loans to determine if such loans are in compliance with our contractual standards, there can be no assurance that this will detect or deter mortgage fraud, or otherwise reduce our exposure to the risk of fraud. We are also exposed to fraud by third parties in the mortgage servicing function, particularly with respect to sales of REO properties, single-family short sales, and other dispositions of non-performing assets.

Changes in interest rates could negatively impact our results of operations, net worth, and fair value of net assets.

Our investment activities and credit guarantee activities expose us to interest rate and other market risks, including prepayment risk. Changes in interest rates could adversely affect our net interest yield, the value of our mortgage assets, and the prepayment rate on mortgage loans we own or guarantee. We incur costs in connection with our efforts to manage these risks.

Our financial results can be significantly affected by changes in interest rates and changes in yield curves, especially results driven by financial instruments that are measured at fair value for accounting purposes either through earnings or in AOCI. These instruments include derivatives, trading securities, available-for-sale securities, and loans with the fair value option elected. Additionally, increases in interest rates could increase other-than-temporary impairments on our investments in non-agency mortgage-related securities. Higher interest rates can result in a reduction in the benefit from expected structural credit enhancements on these securities.

Changes in interest rates may also affect prepayment projections, thus potentially affecting the fair value of our assets, including our investments in mortgage-related assets. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely affect the value of these securities.

When interest rates increase, our credit losses from loans with adjustable payment terms (e.g., ARM loans) may increase as borrower payments increase at their reset dates, which increases the borrower’s risk of default. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations (such as home equity lines of credit and second liens) that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases (due to rising interest rates or change in amortization), it may increase the risk that the borrower may default on a loan we own or guarantee.

Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies, such as the Federal Reserve. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities.

Changes in OAS could materially impact our results of operations, net worth, and fair value of net assets.

OAS is a model-based estimate of the incremental yield spread between a particular financial instrument and a benchmark yield curve. This includes consideration of potential variability in the instrument's cash flows resulting from any options embedded in the security, such as prepayment options. The OAS between the mortgage and agency debt sectors can significantly affect the fair value of our net assets. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in the fair value of net assets arising from net fluctuations in OAS during that period.

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Changes in market conditions, including changes in interest rates, liquidity, prepayment and/or default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in OAS. Our financial results can be significantly affected by changes in OAS, especially results driven by financial instruments that are measured at fair value for accounting purposes either through earnings or in AOCI. These instruments include trading securities, available-for-sale securities, and loans with the fair value option elected. A widening of the OAS on a given asset, which is typically associated with a decline in the current fair value of that asset, may cause significant fair value losses, and may adversely affect our near-term financial results and net worth. Conversely, a narrowing or tightening of the OAS is typically associated with an increase in the current fair value of that asset, but may reduce the number of attractive investment opportunities in mortgage loans and mortgage-related securities, and could increase the cost of our activities to support our market presence and the price performance of our PCs. Consequently, a tightening of the OAS may adversely affect our future financial results and net worth. See “MD&A — FAIR VALUE BALANCE SHEETS AND ANALYSIS — Consolidated Fair Value Balance Sheets Analysis — Discussion of Fair Value Results” for a more detailed description of the impacts of changes in mortgage-to-debt OAS.

While wider spreads might create favorable investment opportunities, we are limited in our ability to take advantage of any such opportunities due to various restrictions on our mortgage-related investments portfolio activities. See “BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

Negative publicity causing damage to our reputation could adversely affect our business, financial results, or net worth.

Reputation risk, or the risk to our financial results and net worth from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects, or adversely impact the trading price of our securities. Perceptions regarding the practices of our competitors, our seller/servicers or the financial services and mortgage industries as a whole, particularly as they relate to the recent housing and economic downturn, may also adversely impact our reputation. Adverse reputation impacts on third parties with whom we have important relationships may impair market confidence or investor confidence in our business operations as well. In addition, negative publicity could expose us to adverse legal and regulatory consequences, including greater regulatory scrutiny or adverse regulatory or legislative changes, and could affect what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist.

Our efforts to reduce foreclosures, modify loan terms and refinance mortgages may adversely affect our financial results.

The servicing alignment initiative, MHA Program (which includes HAMP and HARP), and other loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. However, our loss mitigation strategies may not be successful and our credit losses may continue to remain high. The costs we incur related to loan modifications and other activities have been, and will likely continue to be, significant. For example, with respect to HAMP loan modifications, we bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee, and all applicable servicer and borrower incentives, and are not reimbursed for these costs by Treasury.

We could be required or elect to make changes to our implementation of our loss mitigation activities that could make these activities more costly to us, both in terms of credit expenses and the cost of implementing and operating the activities. For example, we could be required to use principal reduction to achieve reduced payments for borrowers. This could further increase our costs, as we could bear some or all of the costs of such reductions.

A significant number of loans are in the trial period of HAMP or our non-HAMP loan modification programs. A number of loans will fail to complete the applicable trial period or qualify for our other loss mitigation programs. For these loans, the trial period will have effectively delayed the foreclosure process and could increase our losses, to the extent the prices we ultimately receive for the foreclosed properties are less than the prices we could have received had we foreclosed upon the properties earlier. These delays in foreclosure could also cause our REO operations expense to increase, perhaps substantially.

Certain of our modified loans (primarily HAMP loans) have provisions whereby the interest rates on such loans, which initially were set at a below-market rate, will increase gradually until they reach the market rate that was in effect at the time of the modification. This increase in payments may increase the risk that these borrowers will default.

Mortgage modification initiatives, particularly any future focus on principal reductions, which at present we do not offer to borrowers, have the potential to change borrower behavior and mortgage underwriting. Principal reductions may create an incentive for borrowers that are current to become delinquent in order to receive a principal reduction. This, coupled with continued high volumes of underwater mortgages, could significantly affect borrower attitudes towards homeownership, the commitment of borrowers to making their mortgage payments, the way the market values residential mortgage assets, the way in which we conduct business and, ultimately, our financial results.

Depending on the type of loss mitigation activities we pursue, those activities could result in accelerating or slowing prepayments on our PCs and REMICs and Other Structured Securities, either of which could affect the pricing of such securities.

Our current loss mitigation activities may lead to faster prepayments, which could have an impact on the earnings from mortgage-related assets we hold in our Investments segment mortgage investments portfolio. In addition, loss mitigation activities may adversely affect our ability to securitize and sell the loans subject to those activities (e.g., modified single-family mortgage loans).

At the direction of FHFA, we implemented a series of changes to HARP in late 2011 and 2012. We subsequently made similar changes to the relief refinance mortgage initiative for loans with LTV ratios of 80% and less. There can be no assurance that the benefits from the revised programs will exceed our costs. For example, we may face greater exposure to credit and other losses on HARP and other relief refinance loans (starting in late 2012) because we are relieving lenders of certain representations and warranties on the original mortgage being refinanced. In addition, due to the impact of HARP and other refinance initiatives of Freddie Mac and Fannie Mae, we could experience declines in the fair values of certain agency security investments classified as available-for-sale or trading resulting from changes in expectations of mortgage prepayments and lower net interest yields over time on other mortgage-related investments. Furthermore, HARP and similar programs make it harder to estimate prepayments, which could adversely affect our ability to hedge our mortgage-related investments.

We are devoting significant internal resources to the implementation of the servicing alignment initiative and the MHA Program. The costs we incur related to these initiatives have been, and will likely continue to be, significant. The size and scope of these efforts may also limit our ability to pursue other business opportunities or corporate initiatives.

For more information on our loss mitigation activities, see “MD&A — RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk — Single-Family Loan Workouts and the MHA Program.”

We may experience further write-downs and losses relating to our assets that could materially adversely affect our financial results, liquidity and net worth.

We experienced significant losses and write-downs relating to certain of our assets in recent years, particularly between 2008 and 2012, including significant declines in market value, impairments of our investment securities, write-downs of REO properties, losses on non-performing loans removed from PC pools, and impairments on other assets. We may experience additional write-downs and losses relating to our assets, including those that are currently AAA-rated, and the fair values of our assets may decline in the future. This could adversely affect our financial results, liquidity, and net worth. We may decide to pursue certain mortgage-related investments portfolio strategies for economic reasons that could result in the immediate recognition of losses, such as paying a premium to repurchase debt or engaging in certain asset structuring activities that result in the write-off of premiums.

We have a significant deferred tax asset ($22.7 billion as of December 31, 2013), primarily resulting from our decision to release the valuation allowance on our deferred tax assets in the third quarter of 2013. In future periods we will continue to evaluate our ability to realize the net deferred tax asset. If future events significantly alter our current outlook, we may need to reestablish the valuation allowance. If this occurs, we would incur additional income tax expense and might require additional draws under the Purchase Agreement, which could be significant. For more information, see "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Deferred Tax Assets and Liabilities."

There may not be an active, liquid trading market for our equity securities.

Our common stock and the publicly traded classes of our preferred stock trade exclusively on the OTCQB Marketplace. Trading volumes on the OTCQB Marketplace can fluctuate significantly, and may not be stable, which could make it difficult for investors to execute transactions in our securities and could make the prices of our securities decline or be volatile.

Operational Risks

Our business may be adversely affected if we are unable to hire and retain qualified employees.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our ability to recruit and retain executives and other employees with the necessary skills to conduct our business has at times in the past been, and may in the future be, adversely affected by the actions taken by Congress, Treasury, and the Conservator (e.g., significant restrictions on compensation), or that may be taken by them or other government agencies in the future, the uncertainty regarding the duration of the conservatorship, the potential for future legislative or regulatory actions that could significantly affect our existence and our role in the secondary mortgage market, and negative publicity concerning the GSEs. We face competition from inside and outside of the financial services industry for qualified employees. Additionally, an improving economy may put additional pressures on turnover, as more attractive opportunities become available to our employees. Accordingly, we may not be able to retain or replace executives or other employees with the requisite institutional knowledge and the technical, operational, risk management, and other key skills needed to conduct our business effectively.

We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process.

We have been, and will likely continue to be, adversely affected by delays and deficiencies in the foreclosure process, which could increase our expenses. The average length of time for foreclosure of a Freddie Mac loan significantly increased in recent years, particularly in states that require a judicial foreclosure process, and may further increase. Delays in the foreclosure process could cause our expenses to increase for a number of reasons. For example, properties awaiting foreclosure could deteriorate until we acquire ownership of them through foreclosure. This would increase our expenses to repair and maintain

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the properties when we do acquire them. Such delays may also adversely affect the values of, and our losses on, the non-agency mortgage-related securities we hold. Delays in the foreclosure process may also adversely affect trends in home prices regionally or nationally, which could also adversely affect our financial results.

It also is possible that mortgage insurance claims could be reduced or denied if servicers do not follow proper procedures in addressing seriously delinquent borrowers, including if servicers do not complete foreclosures within required timelines.

Delays in the foreclosure process could create fluctuations in our single-family credit statistics. For example, our realization of credit losses, which consists of REO operations income (expense) plus charge-offs, net, could be delayed because we typically record charge-offs at the time we take ownership of a property through foreclosure. Delays could also temporarily increase the number of seriously delinquent loans that remain in our single-family mortgage portfolio, which could result in higher reported serious delinquency rates and a larger number of non-performing loans than would otherwise have been the case.

Issues related to the MERS System could delay or disrupt foreclosure activities and could have an adverse effect on our business.

The MERS® System is an electronic registry that is widely used by seller/servicers, Freddie Mac, and other participants in the mortgage finance industry to maintain records of beneficial ownership of mortgages. The MERS System is owned and operated by MERSCORP Holdings, Inc., a privately held company, the shareholders of which include a number of organizations in the mortgage industry (including Freddie Mac).

Numerous lawsuits have been filed challenging foreclosures conducted using the MERS System. It is possible that adverse judicial decisions, regulatory proceedings or action, or legislative action could delay or disrupt foreclosure of mortgages that are registered on the MERS System.

Federal or state legislation or regulatory action could prevent us from using the MERS System for mortgages that we own, guarantee, and securitize, or could create additional requirements for the transfer of mortgages that could affect the process for and costs of acquiring, transferring, servicing, and foreclosing on mortgages. Such legislation or regulatory action could increase our costs or otherwise adversely affect our business. For example, we could be required to transfer mortgages out of the MERS System. Approximately 45% of the loans Freddie Mac owns or guarantees were registered in MERS' name as of December 31, 2013.

Failures by MERSCORP Holdings and its subsidiaries to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process could pose legal, reputational, and operational risks for us.

Weaknesses in internal control over financial reporting and in disclosure controls could result in errors and inadequate disclosures, affect operating results, and cause investors to lose confidence in our reported results.

Our business could be adversely affected by control deficiencies or failures. Control deficiencies could result in errors in our financial statements, lead to inadequate or untimely disclosures, and affect operating results. Control deficiencies could also cause investors to lose confidence in our reported financial results, which may have an adverse effect on the trading price of our securities. For information about our ineffective disclosure controls and our one material weakness in internal control over financial reporting, see "CONTROLS AND PROCEDURES."

There are a number of factors that may impede our efforts to establish and maintain effective disclosure controls and internal control over financial reporting, including: (a) the nature of the conservatorship and our relationship with FHFA; (b) the complexity of, and significant changes in, our business activities and related GAAP requirements; (c) employee and management turnover; (d) data quality; and (e) servicing-related issues.

Effectively designed and operated internal control over financial reporting provides only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. A failure to maintain effective internal control over financial reporting increases the risk of a material error in our reported financial results and delay in our financial reporting timeline.

We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.

We face risk associated with our use of models for financial accounting and reporting purposes, and to manage business risks. First, there is inherent uncertainty associated with model results. Second, we could fail to properly implement, operate, or use our models. Either of these situations could adversely affect our financial statements, financial and risk-related disclosures, and our ability to manage risks.

We use market-based information to construct our models. However, it can take time for data providers to prepare information, and thus the most recent information may not be available for the preparation of our financial statements. When market conditions change quickly and in unforeseen ways, there is an increased risk that our models are not representative of current market conditions. For example, models may not fully capture the effect of certain economic events or government policies, which makes it more difficult to assess model performance and requires a higher degree of management judgment.

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Our models may not perform as well in situations for which there are few or no recent historical precedents. We have adjusted our models in response to recent events, but there remains considerable uncertainty about model results. Models are inherently imperfect predictors of actual results. Our models rely on various assumptions that may be incorrect, including that historical experience can be used to predict future results. In recent years, it has been more difficult to predict the behaviors of the housing and credit capital markets and market participants.

We face the risk that we could fail to implement, operate, adjust or use our models properly. For example, the assumptions underlying a model could be invalid, or we could apply a model to events or products outside the model's intended use. We may fail to code a model correctly or we could use incorrect data. The complexity and interconnectivity of our models create additional risk regarding the accuracy of model output.

We have increased our use of third-party models. While the use of such models may reduce risk (e.g., where no internal model is available), it may expose us to additional risk as third-parties typically do not provide us with proprietary information regarding their models. We also may have little control over the process by which the models are adjusted or changed. As a result, we may not fully account for the risks associated with the use of such models.

Management often needs to exercise judgment to interpret or adjust modeled results to take into account new information or changes in conditions. The dramatic changes in the housing and credit capital markets in recent years have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This further increases both the uncertainty about model results and the risk of errors in the implementation, operation, or use of the models.

We face the risk that the valuations, risk metrics, amortization results, loan loss reserve estimations, and security impairment charges produced by our models may be different from actual results, which could adversely affect our business results, cash flows, fair value of net assets, business prospects, and future financial results.

We also face risk that we could make poor business decisions in areas where model results are an important factor, including loan purchases, securitizations and sales of loans, purchases and sales of securities, funding strategy, management and guarantee fee pricing, interest-rate risk management, market risk management, credit risk management, quality-control sampling strategies for loans in our single-family credit guarantee portfolio, and representation and warranty and other settlements with our counterparties. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See "MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES" and "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks" for more information on our use of models.

Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations.

Our accounting policies are fundamental to understanding our financial condition and results of operations. Certain of our accounting policies, as well as estimates we make, are "critical," as they are both important to the presentation of our financial condition and results of operations and they require management to make particularly difficult, complex or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements. For a description of our critical accounting policies, see "MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES."

From time to time, the FASB and the SEC change the financial accounting and reporting guidance that governs the preparation of our financial statements. The implementation of new or revised accounting guidance could result in material adverse effects to our net worth and result in or contribute to the need for additional draws under the Purchase Agreement.

FHFA may require us to change our accounting policies, including to align more closely with those of Fannie Mae. FHFA may also require us and Fannie Mae to have the same independent public accounting firm. Either of these events could significantly increase our expenses and require a substantial time commitment of management. For example, in April 2012, FHFA issued an Advisory Bulletin that could have a significant effect on our provision for credit losses in the future. The accounting methods outlined in FHFA's advisory bulletin are significantly different from our current methods of accounting for single-family loans that are 180 days or more delinquent. For more information, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — FHFA Advisory

Bulletin."

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses.

We face significant levels of operational risk, due to a variety of factors, including the complexity of our business operations and the amount of change to our core systems required to keep pace with regulatory and other requirements.

Shortcomings or failures in our internal processes, people, or systems could lead to impairment of our liquidity, financial and economic loss, errors in our financial statements, disruption of our business, liability to customers, further legislative or regulatory intervention, or reputational damage. Our application portfolio contains certain legacy systems that require manual support and intervention, which may lead to heightened risk of system failures.

Our business is highly dependent on our ability to process a large number of transactions on a daily basis and manage and analyze significant amounts of information, much of which is provided by third parties. The transactions we process are complex and are subject to various legal, accounting, and regulatory standards. The types of transactions we process and the standards relating to those transactions can change rapidly in response to external events, such as the implementation of government-mandated programs and changes in market conditions. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. Our systems may contain design flaws. The information provided by third parties may be incorrect, or we may fail to properly manage or analyze it. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives or change or improve existing business activities.

We also face increased operational risk due to the magnitude and complexity of the new initiatives we are undertaking, including our effort to help build a new housing finance system. Some of these initiatives require significant changes to our operational systems. In some cases, the changes must be implemented within a short period of time. Our legacy systems may also create increased operational risk for these new initiatives.

Our employees could act improperly for their own gain and cause unexpected losses or reputational damage. While we have processes and systems in place designed to prevent and detect fraud, there can be no assurance that such processes and systems will be successful.

Most of our key business activities are conducted in our offices in Virginia and represent a concentrated risk of people, technology, and facilities. As a result, a power outage or other infrastructure disruption in the area near our offices could significantly adversely affect our ability to conduct normal business operations. A terrorist event or natural disaster in the area near our offices could have a similar impact. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of events that may occur.

We may not be able to protect the security of our systems or the confidentiality of our information from cyber attack and other unauthorized access, disclosure, and disruption.

Our operations rely on the secure receipt, processing, storage, and transmission of confidential and other information in our computer systems and networks and with our business partners. Like many corporations and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyber attacks. Although Freddie Mac devotes significant resources to protecting its various systems and processes, there is no assurance that Freddie Mac's security measures will provide fully effective security. Our computer systems, software, and networks may be vulnerable to cyber attack, unauthorized access, computer viruses or other malicious code, or other attempts to harm our systems or misuse or steal confidential information. If one or more of such events were to occur, this potentially could jeopardize or result in the unauthorized disclosure, misuse or corruption of confidential and other information (including information of borrowers, our customers or our counterparties), or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. This could result in significant losses or reputational damage, adversely affect our relationships with our customers and counterparties, negatively impact our competitive position, and otherwise harm our business. We could also face regulatory action. We might be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we might be subject to litigation and financial losses that are not fully insured. In addition, there can be no assurance that our business partners and counterparties are adequately protecting the confidential and other information that we share with them. As a result, a cyber attack on their systems and networks, or breach of their security measures, may result in harm to our business and business relationships.

We rely on third parties for certain important functions. Any failures by those vendors could disrupt our business operations.

At times, we outsource certain key functions to external parties, including some that are critical to financial reporting, our mortgage-related investment activity, and mortgage loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, our business operations could be constrained, disrupted, or otherwise negatively affected. Our use of vendors also exposes us to the risk of a loss of intellectual property or of confidential information or other harm. We may also be exposed to reputational harm, to the extent vendors do not conduct their activities under appropriate ethical standards. Our ability to monitor the activities or performance of vendors may be constrained.

Legal and Regulatory Risks

Legislative or regulatory actions could adversely affect our business activities and financial results.

In addition to possible GSE reform discussed in “Conservatorship and Related Matters — The future status and role of Freddie Mac are uncertain,” our business may be directly adversely affected by other legislative and regulatory actions at the federal, state, and local levels. Legislative or regulatory actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. Judicial actions at the federal, state, or local level could have a similar effect. We could be negatively affected by legislation or regulatory action that changes the foreclosure process of any individual state. For example, various states and local jurisdictions have implemented mediation programs designed to bring servicers and borrowers together to negotiate workout options. These actions could delay the foreclosure process and increase our expenses, including by potentially delaying the final resolution of seriously delinquent mortgage loans and the disposition of non-performing assets. We could also be affected by any legislative or regulatory changes that would expand the responsibilities and liability of servicers and assignees for maintaining vacant properties prior to foreclosure. These laws and regulatory changes could significantly expand mortgage costs and liabilities. We could be affected by legislative or regulatory changes that permit or require principal reductions. Our business could also be adversely affected by any modification, reduction, or repeal of the federal income tax deductibility of mortgage interest payments. A number of local governments are considering or may consider using eminent domain to seize mortgage loans and forgive principal on the loans. Such seizures, if they are successful, could result in further losses and write-downs relating to our investment securities and could increase our credit losses. We are subject to lawsuits challenging our statutory exemption from certain real estate transfer taxes. If we were to lose this exemption, our financial results could be adversely affected.

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the regulation of the mortgage and financial services industries and could affect us in substantial and unforeseeable ways. For example, the Dodd-Frank Act and related current and future regulatory changes could require us to change our business practices, such as practices related to mortgage underwriting and servicing. The Dodd-Frank Act will create new standards and requirements related to asset-backed securities, including requiring securitizers and potentially originators to retain a portion of the underlying loans' credit risk. Any such new standards and requirements could modify or remove incentives for financial institutions to sell mortgage loans to us. For more information on the Dodd-Frank Act, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments."

Legislation or regulatory actions could indirectly adversely affect us to the extent such legislation or actions affect the activities of banks, savings institutions, insurance companies, securities dealers, and other regulated entities that constitute a significant part of our customer base or counterparties, or could indirectly affect us to the extent that they modify industry practices. Legislative or regulatory provisions that remove incentives for these entities to sell mortgage loans to us, purchase our securities or enter into derivatives or other transactions with us could have a material adverse effect on our business results and financial condition. The Dodd-Frank Act and related current and future regulatory changes may significantly change the business practices of our customers and counterparties, and it is possible that any such changes will adversely affect our business and financial results. For example, the Dodd-Frank Act and related regulatory changes could have a negative effect on the volume of mortgage originations, and thus adversely affect the number of mortgages available for us to purchase or guarantee.

U.S. banking regulators have substantially revised the capital and liquidity requirements applicable to banking organizations, based on the Basel III standards developed by the Basel Committee on Banking Supervision. Phase-in of the new bank capital and liquidity requirements (some of which have not been finalized) will take several years and there is significant uncertainty about the extent to which implementation of the new requirements by banking organizations may affect us. For example, the emerging regulatory framework could affect demand for our securities and/or competition in the market for mortgage originations and servicing, with possible adverse consequences for our business results and financial condition.

We may make certain changes to our business in an attempt to meet our housing goals and subgoals.

We may make adjustments to our mortgage loan sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including changes to our underwriting standards and the expanded use of targeted initiatives to reach underserved populations. For example, we may purchase loans that offer lower expected returns on our investment and potentially increase our exposure to credit losses. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could potentially adversely affect our profitability. FHFA has not yet published a final rule with respect to our duty to serve underserved markets. However, it is possible that we could also make changes to our business in the future in response to this duty. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition.

We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations and IRS examinations. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations, proceedings, or examinations. Any legal proceeding, governmental investigation, or IRS examination issue, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses.

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Furthermore, developments in, outcomes of, impacts of, and costs, expenses, settlements, and judgments related to these legal proceedings and governmental investigations and examinations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. The defense of, or other involvement in, these various matters could divert management's attention and other resources from the needs of the business. In addition, a number of lawsuits have been filed against the U.S. government relating to conservatorship and the Purchase Agreement that could adversely affect us. See "LEGAL PROCEEDINGS" and "NOTE 17: LEGAL CONTINGENCIES" for information about these various pending legal proceedings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices consist of five office buildings in McLean, Virginia. We own four of the office buildings, comprising approximately 1.3 million square feet. We occupy the fifth building, comprising approximately 200,000 square feet, under a lease from a third party.

ITEM 3. LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See "NOTE 17: LEGAL CONTINGENCIES" for more information regarding our involvement as a party to various legal proceedings.

Litigation Against the U.S. Government Concerning Conservatorship and the Purchase Agreement

Between June and September 2013, a number of lawsuits were filed against the U.S. government and, in some cases, the Secretary of the Treasury and the then Acting Director of FHFA challenging certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. Several of the lawsuits seek to invalidate the net worth sweep dividend provisions of the senior preferred stock, which were implemented pursuant to the August 2012 amendment to the Purchase Agreement. Another lawsuit challenging the Purchase Agreement was filed in February 2014, and it is possible that additional similar lawsuits will be filed in the future. Freddie Mac is not a party to any of these lawsuits. However, a number of other lawsuits have been filed against Freddie Mac concerning the August 2012 amendment to the Purchase Agreement. See "NOTE 17: LEGAL CONTINGENCIES— Litigation Concerning the Purchase Agreement" for more information on the lawsuits filed against Freddie Mac.

It is not possible for us to predict the outcome of these lawsuits, or the actions the U.S. government (including Treasury and FHFA) might take in response to any ruling or finding in any of these lawsuits or any future lawsuits. However, it is possible that we could be adversely affected by these events, including, for example, by changes to the Purchase Agreement, or any resulting actual or perceived changes in the level of U.S. government support for our business.

Litigation Concerning Housing Trust Fund

On July 9, 2013, plaintiffs filed a lawsuit in the U.S. District Court for the Southern District of Florida styled Samuels et al. vs. FHFA and DeMarco. Freddie Mac is not a party to this lawsuit. In the lawsuit, plaintiffs challenge FHFA's decision to suspend Freddie Mac's and Fannie Mae's payments to an affordable housing trust fund managed by HUD. In November 2008, FHFA advised us that it has suspended the requirement to set aside or allocate funds for this trust fund until further notice. See "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Allocations" for more information. In October 2013, FHFA moved to dismiss the complaint and shortly thereafter plaintiffs filed an amended complaint. Plaintiffs' amended complaint alleges that FHFA's actions in ordering Freddie Mac and Fannie Mae to suspend payments to the trust fund, and FHFA's failure to review its decision to suspend payments once Freddie Mac and Fannie Mae's financial circumstances changed, violated the Administrative Procedure Act. The plaintiffs ask that the Court, among other items, vacate and set aside FHFA's decision to indefinitely suspend payments by Fannie Mae and Freddie Mac to the trust fund, and order FHFA to instruct Freddie Mac and Fannie Mae to proceed as if FHFA's suspension of payments to the trust fund had never taken place. Plaintiffs also seek reasonable attorneys' fees and costs. On December 6, 2013, FHFA filed a motion to dismiss the amended complaint, which plaintiffs have opposed.

It is not possible for us to predict the outcome of this lawsuit, or the actions FHFA might take in response to any ruling or finding in this lawsuit. If we are required to contribute some or all of the amounts we would have contributed to the trust fund in past years had FHFA not suspended these allocations or to begin contributing these amounts in the future, it could have an adverse impact on our financial results.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.00 per share, trades on the OTCQB Marketplace, operated by the OTC Markets Group Inc., under the ticker symbol "FMCC." As of February 14, 2014, there were 650,039,533 shares of our common stock outstanding.

The table below sets forth the high and low bid information for our common stock on the OTCQB Marketplace for the indicated periods and reflects inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Table 5 — Quarterly Common Stock Information

	High	Low
2013 Quarter Ended		
December 31	$3.24	$1.26
September 30	1.65	0.98
June 30	5.00	0.67
March 31	1.44	0.27
2012 Quarter Ended		
December 31	$0.32	$0.24
September 30	0.33	0.14
June 30	0.33	0.24
March 31	0.42	0.21

Holders

As of February 14, 2014, we had 1,904 common stockholders of record.

Dividends and Dividend Restrictions

We did not pay any cash dividends on our common stock during 2013 or 2012. Our payment of dividends is subject to the following restrictions:

Restrictions Relating to the Conservatorship

As Conservator, FHFA announced on September 7, 2008 that we would not pay any dividends on Freddie Mac's common stock or on any series of Freddie Mac's preferred stock (other than the senior preferred stock). FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the director of FHFA.

Restrictions Under the Purchase Agreement

The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant) without the prior written consent of Treasury.

Restrictions Under the GSE Act

Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. If FHFA classifies us as undercapitalized, we are not permitted to make a capital distribution that would result in our being reclassified as significantly undercapitalized or critically undercapitalized. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any capital distribution; the Director may approve a capital distribution only if the Director determines that the distribution will enhance the ability of the company to meet required capital levels promptly, will contribute to the long-term financial safety-and-soundness of the company, or is otherwise in the public interest. Our capital requirements have been suspended during conservatorship.

Restrictions Under our Charter

Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core

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capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Subordinated Debt

During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (a) our core capital is below 125% of our critical capital requirement; or (b) our core capital is below our statutory minimum capital requirement, and the Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our charter to purchase our debt obligations. FHFA has directed us to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Preferred Stock

Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of December 31, 2013. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is subject to the prior payment of dividends on the senior preferred stock. We paid dividends on the senior preferred stock during 2013 at the direction of the Conservator, as discussed in “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock” and “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT) — Dividends Declared.” We did not declare or pay dividends on any other series of preferred stock outstanding in 2013.

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 these plans to employees and members of our Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury’s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. No stock options were exercised during the three months ended December 31, 2013. See “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT)” for more information.

Issuer Purchases of Equity Securities

We did not repurchase any of our common or preferred stock during 2013. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury’s prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the certificate of designation of the senior preferred stock.

Transfer Agent and Registrar

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 781-575-2879
http://www.computershare.com/investors

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below should be reviewed in conjunction with MD&A and our consolidated financial statements and related notes.

Table 6 — Selected Financial Data[1]

	At or For The Year Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions, except share-related amounts)				
Statements of Comprehensive Income Data					
Net interest income	$16,468	$17,611	$18,397	$16,856	$17,073
Benefit (provision) for credit losses	2,465	(1,890)	(10,702)	(17,218)	(29,530)
Non-interest income (loss)	8,519	(4,083)	(10,878)	(11,588)	(2,732)
Non-interest expense	(2,089)	(2,193)	(2,483)	(2,932)	(7,195)
Income tax benefit	23,305	1,537	400	856	830
Net income (loss) attributable to Freddie Mac	48,668	10,982	(5,266)	(14,025)	(21,553)
Total comprehensive income (loss) attributable to Freddie Mac	51,600	16,039	(1,230)	282	(2,913)
Loss attributable to common stockholders[2]	(3,531)	(2,074)	(11,764)	(19,774)	(25,658)
Loss per common share – basic and diluted	(1.09)	(0.64)	(3.63)	(6.09)	(7.89)
Cash dividends per common share	—	—	—	—	—
Weighted average common shares outstanding (in thousands) – basic and diluted[3]	3,238,047	3,240,028	3,244,896	3,249,369	3,253,836
Balance Sheets Data					
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,529,905	$1,495,932	$1,564,131	$1,646,172	$—
Total assets	1,966,061	1,989,856	2,147,216	2,261,780	841,784
Debt securities of consolidated trusts held by third parties	1,433,984	1,419,524	1,471,437	1,528,648	—
Other debt	506,767	547,518	660,546	713,940	780,604
All other liabilities	12,475	13,987	15,379	19,593	56,808
Total Freddie Mac stockholders' equity (deficit)	12,835	8,827	(146)	(401)	4,278
Portfolio Balances[4]					
Mortgage-related investments portfolio	$461,024	$557,544	$653,313	$696,874	$755,272
Total Freddie Mac mortgage-related securities[5]	1,592,511	1,562,040	1,624,684	1,712,918	1,854,813
Total mortgage portfolio[6]	1,914,661	1,956,276	2,075,394	2,164,859	2,250,539
Non-performing assets[7]	127,991	135,677	129,152	125,405	104,984
Ratios[8]					
Return on average assets[9]	2.5 %	0.5 %	(0.2)%	(0.6)%	(2.5)%
Non-performing assets ratio[10]	7.1	7.5	6.8	6.4	5.2

Equity to assets ratio(11)	0.5	0.2	—	(0.2)	(1.6)

(1) See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for information regarding our accounting policies and the impact of new accounting policies on our consolidated financial statements. Effective January 1, 2010, we adopted amendments to the accounting guidance for transfers of financial assets and the consolidation of VIEs. This had a significant impact on our consolidated financial statements. Consequently, certain of the line items in our consolidated financial statements for 2009 are not comparable with those of more recent years.

(2) For a discussion of how the change in the manner in which the senior preferred stock dividend is determined affects net income (loss) attributable to common stockholders beginning in the fourth quarter of 2012, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share."

(3) Includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement, because it is unconditionally exercisable by the holder at a cost of $0.00001 per share.

(4) Represents the UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(5) See ''Table 33 — Freddie Mac Mortgage-Related Securities'' for the composition of this line item.

(6) See ''Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios'' for the composition of our total mortgage portfolio.

(7) See ''Table 53 — Non-Performing Assets'' for a description of our non-performing assets.

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

(9) Ratio computed as net income (loss) attributable to Freddie Mac divided by the simple average of the beginning and ending balances of total assets.

(10) Ratio computed as non-performing assets divided by the ending UPB of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities.

(11) Ratio computed as the simple average of the beginning and ending balances of total Freddie Mac stockholders' equity (deficit) divided by the simple average of the beginning and ending balances of total assets.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this MD&A in conjunction with "BUSINESS — Executive Summary" and our consolidated financial statements and related notes.

MORTGAGE MARKET AND ECONOMIC CONDITIONS, AND OUTLOOK

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 2.7% during 2013, measured on a fourth quarter to fourth quarter basis, compared to 2.0% in 2012, according to the Bureau of Economic Analysis. The national unemployment rate was 6.7% in December 2013, compared to 7.9% in December 2012, based on data from the U.S. Bureau of Labor Statistics. In the data underlying the unemployment rate, an average of approximately 194,000 monthly net new jobs (non-farm) were added to the economy during 2013, which shows evidence of a slow, but steady positive trend for the economy and the labor market. Long-term interest rates, such as those of 30-year fixed-rate mortgages, generally increased during 2013. For example, based on our weekly Primary Mortgage Market Survey, the rate on 30-year fixed-rate conforming mortgages with an average LTV ratio of 80% averaged 4.5% in December 2013 compared to 3.4% in December 2012. This increase led to a significant reduction of single-family refinance mortgage activity in 2013.

Table 7 — Mortgage Market Indicators

	Year Ended December 31,		
	2013	2012	2011
Home sale units (in thousands)(1)	5,518	5,028	4,566
National home price change(2)	9.3 %	5.9 %	(3.2)%
Single-family originations (in billions)(3)	$1,890	$2,120	$1,495
ARM share(4)	14 %	11 %	12 %
Refinance share(5)	73 %	84 %	79 %
U.S. single-family mortgage debt outstanding (in billions)(6)	$9,864	$9,930	$10,183
U.S. multifamily mortgage debt outstanding (in billions)(6)	$908	$881	$857

(1) Consists of sales of new and existing homes in the U.S. Source: National Association of Realtors news release dated February 21, 2014 (sales of existing homes) and U.S. Census Bureau news release dated January 27, 2014 (sales of new homes).

(2) Calculated internally using estimates of changes in single-family home prices by state, which are weighted using the property values underlying our single-family credit guarantee portfolio to obtain a national index. The rate for each year presented incorporates property value information on loans purchased by both Freddie Mac and Fannie Mae through December 31, 2013 and the percentage change will be subject to revision based on more recent purchase information. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

(3) Source: Inside Mortgage Finance estimates of originations of single-family first-and second liens dated January 31, 2014.

(4) ARM share of the dollar amount of total mortgage applications. Source: Mortgage Bankers Association's Mortgage Applications Survey. Data reflect annual average of weekly figures.

(5) Refinance share of the number of conventional mortgage applications. Source: Mortgage Bankers Association's Mortgage Applications Survey. Data reflect annual average of weekly figures.

(6) Source: Federal Financial Accounts of the United States dated December 9, 2013. The outstanding amounts for 2013 presented above reflect balances as of September 30, 2013.

Single-Family Housing Market

The single-family housing market improved significantly in 2013 despite continued weakness in the employment market and a significant inventory of seriously delinquent loans and REO properties in the market.

Based on data from the National Association of Realtors, sales of existing homes in 2013 were 5.09 million, increasing 9% from 4.66 million in 2012. Based on data from the U.S. Census Bureau and HUD, sales of new homes in 2013 were 428,000, increasing 16% from 368,000 in 2012. Home prices increased during both 2013 and 2012, with our nationwide index registering approximately a 9.3% increase from December 2012 through December 2013 and a 5.9% increase from December 2011 to December 2012. Despite these increases, our national home price index reflects a cumulative decline of 15% since June 2006. These estimates were based on our own price index of mortgage loans on one-family homes funded by us or Fannie Mae. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

The serious delinquency rate of our single-family loans declined during both 2013 and 2012 and was 2.39% as of December 31, 2013. The Mortgage Bankers Association reported in its National Delinquency Survey that serious delinquency rates on all single-family loans in the survey declined to 5.4% as of December 31, 2013, down from 6.8% at December 31,

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2012. Borrower delinquency rates have been generally worse in areas with higher unemployment rates and where declines in property values have been more significant during recent years.

Based on the National Delinquency Survey’s data, we estimate that we owned or guaranteed approximately 23% of the single-family mortgages outstanding in the U.S. at December 31, 2013, based on number of loans. At December 31, 2013, we held or guaranteed approximately 255,000 seriously delinquent single-family loans, representing approximately 10% of the seriously delinquent single-family mortgages in the market as of that date.

Multifamily Housing Market

The multifamily market has experienced strong rent and occupancy trends over the last several years, although the pace slowed in 2013. These strong fundamentals, coupled with low interest rates, drove an increase in investor demand for multifamily properties. The most recent preliminary data reported by Reis, Inc. indicated that the national apartment vacancy rate declined by 50 basis points during 2013 to 4.1% in the fourth quarter, representing the lowest level since 2001. In addition, Reis, Inc. reported that effective rents grew by 3.2% during 2013, compared to 3.9% during 2012. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows. According to the latest information available from Moody's Analytics, Inc. and Real Capital Analytics, Inc., apartment prices rose approximately 12% nationally in 2013 and have returned to the peak values experienced in 2007 for most markets. As a result, the multifamily sector continued to experience strong investor interest and continued to outperform most other commercial real estate sectors in 2013.

Outlook

Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. 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. For example, a number of factors could cause the actual performance of the housing and mortgage markets and the U.S. economy in the near term to be significantly worse than we expect, including adverse changes in national or international economic conditions and changes in the federal government’s fiscal or monetary policies. See “FORWARD-LOOKING STATEMENTS” for additional information.

Although national home prices have increased for the last two years, home prices at December 31, 2013 remained significantly below their peak levels in many geographical areas. Declines in the market’s inventory of vacant housing have supported stabilization and increases in home prices in a number of metropolitan areas. However, we believe that home prices will not continue at the same growth rate experienced in 2013, but will gradually moderate in 2014 and will return towards growth rates that are consistent with long-term historical averages (approximately 2 to 5 percent growth on an annual basis). To the extent a large volume of loans completes the foreclosure process in a short period, the resulting increase in the market’s inventory of homes for sale could have a negative effect on home prices.

Single-Family

We continue to expect key macroeconomic drivers of the economy, such as income growth, employment, and inflation, will affect the performance of the housing and mortgage markets in 2014. Since we expect that economic growth will continue and mortgage interest rates will remain low in 2014, compared to historical levels (although higher than in 2013), we believe that housing affordability will remain relatively high in 2014 for potential home buyers. We also expect that the volume of home sales will likely increase in 2014, but not return to the historically high levels experienced in 2005 to 2007. Important factors that we believe will continue to negatively affect single-family housing demand are the relatively high unemployment rate and relatively low consumer confidence measures. Consumer confidence measures, while up from recession lows of 2009, remain below long-term averages and suggest that households will likely continue to be cautious in home buying.

We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2014 compared to 2013, as an expected decline in purchase volume is expected to be offset by a decline in prepayments. However, we believe that the recent increase and potential further increases in mortgage interest rates will result in a decline, which could be significant, in overall single-family mortgage originations in 2014 compared with 2013, driven by a decline in refinancings. During the second half of 2013, refinancings, including HARP, comprised approximately 61% of our single-family purchase and issuance volume, compared with 81% in the first half of 2013 and approximately 82% for all of 2012. As a result of the expected declines in overall originations, our purchase volumes will likely also decline, potentially significantly, during 2014. We expect HARP activity to decline in 2014, since the pool of borrowers eligible to participate in the program has declined and mortgage interest rates increased during 2013.

Our charge-offs remained elevated during 2013 compared to levels before 2009 and we expect they will continue to be elevated during 2014. This is in part due to the substantial number of underwater mortgage loans in our single-family credit guarantee portfolio. For the near term, we also expect:

- REO disposition and short sale severity ratios to remain high. However, our recovery rates have been positively affected by recent improvements in home prices and home sales; and

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- The amount of non-performing assets and the volume of our loan workouts to remain high.

Our guarantee fee rate charged on new acquisitions increased in 2013 as a result of two across-the-board increases in guarantee fees implemented in 2012. In December 2013, FHFA directed us to make additional changes to our management and guarantee fee rates in 2014. In January 2014, FHFA announced it was delaying the implementation of these changes. FHFA may direct us to implement further increases in our guarantee fees in the future.

Multifamily

We expect that, at the national level, new supply of multifamily housing will not significantly exceed market demand in the near term due to constraints, such as rising construction costs and the availability of financing relative to other real estate sectors. We expect that demand growth, driven by a strengthening economy and positive demographics, will generally be sufficient for the increase in supply. However, there may be certain local markets where new supply may outpace demand, which would be evidenced by excess supply and rising vacancy rates. As a result of the positive market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in 2014. We believe the long-term outlook for the national multifamily market continues to be favorable as strong demand will support healthy cash flows and stable property values.

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CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations.

Table 8 — Summary Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net interest income	$16,468	$17,611	$18,397
Benefit (provision) for credit losses	2,465	(1,890)	(10,702)
Net interest income after benefit (provision) for credit losses	18,933	15,721	7,695
Non-interest income (loss):			
Gains (losses) on extinguishment of debt securities of consolidated trusts	314	(58)	(219)
Gains (losses) on retirement of other debt	132	(77)	44
Derivative gains (losses)	2,632	(2,448)	(9,752)
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(763)	(1,236)	(2,101)
Portion of other-than-temporary impairment recognized in AOCI	(747)	(932)	(200)
Net impairment of available-for-sale securities recognized in earnings	(1,510)	(2,168)	(2,301)
Other gains (losses) on investment securities recognized in earnings	301	(1,522)	(896)
Other income	6,650	2,190	2,246
Total non-interest income (loss)	8,519	(4,083)	(10,878)
Non-interest expense:			
Administrative expenses	(1,805)	(1,561)	(1,506)
REO operations income (expense)	140	(59)	(585)
Other expenses	(424)	(573)	(392)
Total non-interest expense	(2,089)	(2,193)	(2,483)
Income (loss) before income tax benefit	25,363	9,445	(5,666)
Income tax benefit	23,305	1,537	400
Net income (loss)	48,668	10,982	(5,266)
Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	2,406	4,769	3,465
Changes in unrealized gains (losses) related to cash flow hedge relationships	316	414	509
Changes in defined benefit plans	210	(126)	62
Total other comprehensive income (loss), net of taxes and reclassification adjustments	2,932	5,057	4,036
Comprehensive income (loss)	$51,600	$16,039	$(1,230)

Net Interest Income

The table below summarizes our net interest income and net interest yield and provides an attribution of changes in annual results to changes in interest rates or changes in volumes of our interest-earning assets and interest-bearing liabilities. Average balance sheet information is presented because we believe end-of-period balances are not representative of activity throughout the periods presented. For most components of the average balances, a daily weighted average balance was calculated for the period. When daily average balance information was not available, a simple monthly average balance was calculated.

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Table 9 — Net Interest Income/Yield, Average Balance, and Rate/Volume Analysis

	Year Ended December 31,								
	2013			2012			2011		
	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate	Average Balance[1][2]	Interest Income (Expense)[1]	Average Rate
	(dollars in millions)								
Interest-earning assets:									
Cash and cash equivalents	$31,087	$15	0.05 %	$35,476	$20	0.06 %	$45,381	$34	0.07
Federal funds sold and securities purchased under agreements to resell	44,897	36	0.08	38,944	66	0.17	27,557	33	0.12
Mortgage-related securities:									
Mortgage-related securities[3]	313,707	12,787	4.08	357,197	15,853	4.44	442,284	20,357	4.60
Extinguishment of PCs held by Freddie Mac	(127,999)	(5,045)	(3.94)	(119,181)	(5,328)	(4.47)	(162,600)	(7,665)	(4.71
Total mortgage-related securities, net	185,708	7,742	4.17	238,016	10,525	4.42	279,684	12,692	4.54
Non-mortgage-related securities[3]	21,385	26	0.12	23,763	58	0.25	24,587	99	0.40
Mortgage loans held by consolidated trusts[4][5]	1,511,128	57,189	3.78	1,529,213	65,089	4.26	1,627,956	77,158	4.74
Unsecuritized mortgage loans[4][6]	203,760	7,694	3.78	237,942	8,960	3.77	244,134	9,124	3.74
Total interest-earning assets	$1,997,965	$72,702	3.63	$2,103,354	$84,718	4.03	$2,249,299	$99,140	4.41
Interest-bearing liabilities:									
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,532,032	$(52,395)	(3.42)	$1,552,207	$(61,437)	(3.96)	$1,643,939	$(74,784)	(4.55
Extinguishment of PCs held by Freddie Mac	(127,999)	5,045	3.94	(119,181)	5,328	4.47	(162,600)	7,665	4.71
Total debt securities of consolidated trusts held by third parties	1,404,033	(47,350)	(3.37)	1,433,026	(56,109)	(3.92)	1,481,339	(67,119)	(4.53
Other debt:									
Short-term debt	132,674	(178)	(0.13)	129,504	(176)	(0.14)	186,304	(331)	(0.18
Long-term debt[7]	393,094	(8,251)	(2.10)	463,308	(10,217)	(2.21)	503,842	(12,538)	(2.49

Total other debt	525,768	(8,429)	(1.60)	592,812	(10,393)	(1.75)	690,146	(12,869)	(1.86
Total interest-bearing liabilities	1,929,801	(55,779)	(2.89)	2,025,838	(66,502)	(3.28)	2,171,485	(79,988)	(3.68
Expense related to derivatives[8]	—	(455)	(0.02)	—	(605)	(0.03)	—	(755)	(0.04
Impact of net non-interest-bearing funding	68,164	—	0.10	77,516	—	0.12	77,814	—	0.13
Total funding of interest-earning assets	$1,997,965	$(56,234)	(2.81)	$2,103,354	$(67,107)	(3.19)	$2,249,299	$(80,743)	(3.59
Net interest income/yield		$16,468	0.82		$17,611	0.84		$18,397	0.82

	2013 vs. 2012 Variance Due to			2012 vs. 2011 Variance Due to		
	Rate[9]	Volume[9]	Total Change	Rate[9]	Volume[9]	Total Change
	(in millions)					
Interest-earning assets:						
Cash and cash equivalents	$(8)	$3	$(5)	$(2)	$(12)	$(14
Federal funds sold and securities purchased under agreements to resell	(38)	8	(30)	16	17	33
Mortgage-related securities:						
Mortgage-related securities[3]	(1,229)	(1,837)	(3,066)	(706)	(3,798)	(4,504
Extinguishment of PCs held by Freddie Mac	659	(376)	283	379	1,958	2,337
Total mortgage-related securities, net	(570)	(2,213)	(2,783)	(327)	(1,840)	(2,167
Non-mortgage-related securities[3]	(27)	(5)	(32)	(38)	(3)	(41
Mortgage loans held by consolidated trusts[4][5]	(7,139)	(761)	(7,900)	(7,566)	(4,503)	(12,069
Unsecuritized mortgage loans[4][6]	24	(1,290)	(1,266)	69	(233)	(164
Total interest-earning assets	$(7,758)	$(4,258)	$(12,016)	$(7,848)	$(6,574)	$(14,422
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$8,253	$789	$9,042	$9,337	$4,010	$13,347
	(659)	376	(283)	(379)	(1,958)	(2,337

Extinguishment of PCs held by Freddie Mac						
Total debt securities of consolidated trusts held by third parties	7,594	1,165	8,759	8,958	2,052	11,010
Other debt:						
Short-term debt	2	(4)	(2)	67	88	155
Long-term debt(7)	474	1,492	1,966	1,360	961	2,321
Total other debt	476	1,488	1,964	1,427	1,049	2,476
Total interest-bearing liabilities	8,070	2,653	10,723	10,385	3,101	13,486
Expense related to derivatives(8)	150	—	150	150	—	150
Total funding of interest-earning assets	$8,220	$2,653	$10,873	$10,535	$3,101	$13,636
Net interest income	$462	$(1,605)	$(1,143)	$2,687	$(3,473)	$(786

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) We calculate average balances based on amortized cost.

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(3) Interest income (expense) includes accretion of the portion of impairment charges recognized in earnings where we expect significant increases in cash flows from the impaired securities.
(4) Non-performing loans, where interest income is generally recognized when collected, are included in average balances.
(5) Loan fees, primarily consisting of delivery fees, included in interest income for mortgage loans held by consolidated trusts were $1.2 billion, $929 million, and $405 million for 2013, 2012, and 2011, respectively.
(6) Loan fees, primarily consisting of delivery fees and multifamily prepayment fees, included in unsecuritized mortgage loan interest income were $294 million, $446 million, and $223 million for 2013, 2012, and 2011, respectively.
(7) Includes current portion of long-term debt.
(8) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.
(9) Rate and volume changes are calculated on the individual financial statement line item level. Combined rate/volume changes were allocated to the individual rate and volume change based on their relative size.

The table below summarizes components of our net interest income.
Table 10 — Net Interest Income

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Contractual amounts of net interest income[1]	$14,114	$16,162	$18,448
Amortization income (expense), net:[2]			
Accretion of impairments on available-for-sale securities[3]	521	214	115
Asset-related amortization income (expense), net:			
Mortgage loans held by consolidated trusts	(4,935)	(4,536)	(1,942)
Unsecuritized mortgage loans	266	156	182
Mortgage-related securities	(168)	(59)	(239)
Other assets	(282)	(281)	(122)
Asset-related amortization expense, net	(5,119)	(4,720)	(2,121)
Debt-related amortization income (expense), net:			
Debt securities of consolidated trusts	7,726	7,112	3,383
Other debt securities	(319)	(552)	(673)
Debt-related amortization income, net	7,407	6,560	2,710
Total amortization income, net	2,809	2,054	704
Expense related to derivatives[4]	(455)	(605)	(755)
Net interest income	$16,468	$17,611	$18,397

(1) Includes the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.
(2) Represents amortization related to premiums, discounts, deferred fees and other adjustments to the carrying value of our financial instruments, and the reclassification of previously deferred balances from AOCI for certain derivatives in closed cash flow hedge relationships related to individual debt issuances and mortgage purchase transactions.
(3) The portion of the impairment charges recognized in earnings where we expect significant increases in cash flows is recognized as net interest income.
(4) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt

affects earnings.

Net interest income decreased by $1.1 billion to $16.5 billion for 2013 compared to $17.6 billion for 2012. Net interest yield decreased by two basis points to 82 basis points for 2013 compared to 84 basis points for 2012. The decrease in net interest income was primarily due to the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations. Excluding the impact of the legislated 10 basis point increase in guarantee fees, which was implemented in April 2012, net interest income decreased by $1.6 billion for 2013 compared to 2012. Net interest income includes $519 million and $105 million for 2013 and 2012, respectively, related to this increase in guarantee fees. The decrease in net interest yield was primarily due to the negative impact of the reduction in higher-yielding mortgage-related assets, partially offset by the benefit of lower funding costs from the replacement of debt at lower rates.

Net interest income decreased by $0.8 billion to $17.6 billion for 2012 compared to $18.4 billion for 2011. The decrease in net interest income was primarily attributable to the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations. Net interest yield increased by two basis points to 84 basis points for 2012 compared to 82 basis points for 2011. The increase in net interest yield was primarily due to the benefit of lower funding costs from the replacement of debt at lower rates, partially offset by the negative impact of the reduction in higher-yielding mortgage-related assets.

We recognize interest income on non-performing loans that have been placed on non-accrual status only when cash payments are received. We refer to the interest income that we do not recognize as foregone interest income (i.e., interest income we would have recorded if the loans had been current in accordance with their original terms). Foregone interest income and reversals of previously recognized interest income, net of cash received, related to non-performing loans was $2.0 billion, $3.1 billion and $4.0 billion during 2013, 2012, and 2011, respectively. These amounts have declined primarily because of the reduction in the volume of non-performing loans on non-accrual status.

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The objectives set for us under our charter and conservatorship, restrictions in the Purchase Agreement and restrictions imposed by FHFA have negatively impacted, and will continue to negatively impact, our net interest income. For example, our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the portfolio reaches $250 billion. This decline in asset balances will cause a reduction in our interest income from this portfolio over time. For more information on the various restrictions and limitations on our investment activity and our mortgage-related investments portfolio, see “BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

During 2013, we had sufficient access to the debt markets. For more information, see “LIQUIDITY AND CAPITAL RESOURCES — Liquidity.”

Benefit (Provision) for Credit Losses

We maintain loan loss reserves at levels we believe are appropriate to absorb probable incurred losses on mortgage loans held-for-investment and loans underlying our financial guarantees. Our loan loss reserves are increased through the provision for credit losses and are reduced by net charge-offs. The provision for credit losses primarily reflects our estimate of incurred losses for newly impaired loans as well as changes in our estimates of incurred losses for previously impaired loans.

Our benefit (provision) for credit losses was $2.5 billion in 2013, $(1.9) billion in 2012, and $(10.7) billion in 2011. The significant improvements in benefit (provision) for credit losses in 2013 and 2012 reflect: (a) declines in the volume of newly delinquent loans (largely due to a decline in the 2005-2008 Legacy single-family book); and (b) lower estimates of incurred losses largely resulting from the positive impact of an increase in national home prices. Assuming that all other factors remain the same, an increase in home prices can reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default. Our benefit (provision) for credit losses in 2013 also reflects $1.7 billion of benefit related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments primarily associated with our Legacy single-family books.

While we have recorded a benefit for credit losses in each of the last five quarters, this trend is not expected to continue. As noted above, we executed settlement agreements with many of our significant sellers that positively affected our results in 2013. Our provision for credit losses and amount of charge-offs in the future will be affected by a number of factors, including: (a) the actual level of mortgage defaults, including default rates among borrowers that participated in HARP and HAMP; (b) the effect of the MHA Program, the servicing alignment initiative, and other current and future loss mitigation efforts; (c) any government actions or programs that affect the ability of borrowers to refinance underwater mortgages or obtain modifications; (d) changes in property values; (e) regional economic conditions, including unemployment rates; (f) additional delays in the foreclosure process; (g) third-party mortgage insurance coverage and recoveries; and (h) the effect of additional settlement agreements with sellers, if any.

During 2013, our charge-offs, net of recoveries for single-family loans, were significantly lower than those recorded in 2012, primarily due to: (a) higher recoveries related to repurchase requests from certain sellers; and (b) improvements in home prices in many of the areas in which we have had significant foreclosure and short sale activity. Our recoveries in 2013 and 2012 included approximately $2.8 billion and $0.7 billion, respectively, related to repurchase requests from our seller/servicers (including $2.1 billion and $0, respectively, related to settlement agreements related to repurchase requests from certain sellers). Although our credit losses have declined in each of the last five quarters, we continue to experience a high volume of foreclosures and foreclosure alternatives as compared to periods prior to 2008. We expect our credit losses will continue to remain elevated in 2014 even if the volume of new seriously delinquent loans continues to decline.

The total number of single-family seriously delinquent loans declined approximately 28% and 15% during 2013 and 2012, respectively. As of December 31, 2013 and 2012, the UPB of our single-family non-performing loans was $121.8 billion and $128.6 billion, respectively. However, these amounts include $78.0 billion and $65.8 billion, respectively, of single-family TDRs that were no longer seriously delinquent. Loans that have been classified as TDRs remain categorized as non-performing throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status. See “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk” for further information on our single-family credit guarantee portfolio, including credit performance, serious delinquency rates, charge-offs, our loan loss reserves balance, and our non-performing assets. We recognized a benefit for credit losses associated with our multifamily mortgage portfolio of $218 million, $123 million and $196 million for 2013, 2012, and 2011, respectively. The benefit for credit losses in 2013 was primarily driven by an improvement in the expected performance of the underlying loans.

Non-Interest Income (Loss)

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

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trusts. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to extinguish the debt security differs from its carrying value.

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We extinguished debt securities of consolidated trusts with a UPB of $44.4 billion, $13.5 billion, and $75.4 billion, in 2013, 2012, and 2011 respectively, (representing our purchase of single-family PCs with a corresponding UPB amount). Purchases of single-family PCs increased in 2013 primarily due to improved investment opportunities. The decrease in purchases of single-family PCs in 2012 compared to 2011 was due to a decrease in the volume of dollar roll transactions to support the market and pricing of our single-family PCs.

Gains (losses) on extinguishment of these debt securities of consolidated trusts were $314 million, $(58) million, and $(219) million in 2013, 2012, and 2011, respectively. In 2013, we recognized gains as interest rates increased between the time of issuance and repurchase of these debt securities. We recognized losses in 2012 and 2011 as interest rates declined between the time of issuance and repurchase of these debt securities.

See "Table 24 — Mortgage-Related Securities Purchase Activity" for additional information regarding purchases of mortgage-related securities, including those issued by consolidated PC trusts.

Gains (Losses) on Retirement of Other Debt

We repurchase or call our outstanding other debt securities from time to time when we believe it is economically beneficial and to manage the mix of liabilities funding our assets. When we repurchase or call outstanding debt securities, or holders put outstanding debt securities to us, we recognize a gain or loss to the extent the amount paid to redeem the debt security differs from its carrying value. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for more information regarding our accounting policies related to debt retirements.

Gains (losses) on retirement of other debt were $132 million, $(77) million, and $44 million in 2013, 2012, and 2011, respectively. We recognized gains on the retirement of other debt in 2013 primarily as a result of exercising our call option for other debt held at premiums. Losses on the retirement of other debt in 2012 primarily resulted from write-offs of unamortized deferred issuance costs related to calls of other debt securities. We recognized gains on the retirement of other debt during 2011 primarily due to the repurchase of other debt securities at less than par. For more information, see "LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Other Debt Securities."

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See "NOTE 9: DERIVATIVES — Table 9.2 — Gains and Losses on Derivatives" for information about gains and losses related to specific categories of derivatives. Changes in fair value and interest accruals on derivatives not in hedge accounting relationships are recorded as derivative gains (losses) in our consolidated statements of comprehensive income. At December 31, 2013, 2012, and 2011, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to closed cash flow hedges. Amounts recorded in AOCI associated with these closed cash flow hedges are reclassified to earnings when the forecasted transactions affect earnings. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the forecasted transaction is reclassified into earnings immediately.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they could increase the volatility of reported net income because, while fair value changes in derivatives from fluctuations in interest rates and yield curves affect net income, fair value changes in several of the types of assets and liabilities being hedged do not affect net income.

Table 11 — Derivative Gains (Losses)

	Derivative Gains (Losses) Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Interest-rate swaps	$8,598	$(204)	$(10,367)
Option-based derivatives[1]	(2,422)	1,250	7,176
Other derivatives[2]	(77)	308	(1,529)
Accrual of periodic settlements	(3,467)	(3,802)	(5,032)
Total	$2,632	$(2,448)	$(9,752)

(1) Primarily includes purchased call and put swaptions and purchased interest-rate caps and floors.

(2) Primarily includes futures, foreign-currency swaps, commitments, credit derivatives and swap guarantee derivatives.

Gains (losses) on derivatives are principally driven by changes in: (a) interest rates and implied volatility; and (b) the mix and balance of products in our derivative portfolio.

Our mix and balance of derivatives change from period to period as we respond to changing interest rate environments. A receive-fixed swap results in our receipt of a fixed interest-rate payment from our counterparty in exchange for a variable-rate payment. Conversely, a pay-fixed swap requires us to make a fixed interest-rate payment to our counterparty in exchange for a variable-rate payment. Receive-fixed swaps increase in value and pay-fixed swaps decrease in value when interest rates decrease (with the opposite being true when interest rates increase).

Purchased call and put swaptions, where we make premium payments, are options for us to enter into receive- and pay-fixed swaps, respectively. Conversely, written call and put swaptions, where we receive premium payments, are options for our counterparty to enter into receive and pay-fixed swaps, respectively. The fair values of both purchased and written call and put swaptions are sensitive to changes in interest rates and are also driven by the market's expectation of potential changes in future interest rates (referred to as "implied volatility"). Purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases. Recognized losses on purchased options in any given period are limited to the premium paid to purchase the option plus any unrealized gains previously recorded. Potential losses on written options are unlimited.

During 2013, we recognized a net gain on derivatives of \$2.6 billion as net fair value gains of \$8.6 billion on our interest-rate swap portfolio, primarily driven by an increase in longer-term interest rates, were partially offset by: (a) a net loss of \$3.5 billion related to the accrual of periodic settlements on interest-rate swaps as we were a net payer on our interest-rate swaps based on the coupons of the instruments; and (b) a fair value loss of \$2.4 billion on our option-based derivatives.

During 2012, we recognized losses on derivatives of \$2.4 billion, primarily due to losses related to the accrual of periodic settlements on interest-rate swaps as we were a net payer on our interest-rate swaps based on the coupons of the instruments. We recognized fair value losses on our pay-fixed swaps, which were offset by: (a) fair value gains on our receive-fixed swaps; and (b) fair value gains on our option-based derivatives resulting from gains on our purchased call swaptions due to a decrease in interest rates. In 2012, the effect of the decline in interest rates and a steepening of the yield curve was coupled with a change in the mix of our derivative portfolio, whereby we increased our holdings of receive-fixed swaps relative to pay-fixed swaps to rebalance our portfolio during a period of steadily declining interest rates, and increased our issuances of debt with longer-term maturities.

During 2011, we recognized losses on derivatives of \$9.8 billion, primarily due to declines in long-term swap interest rates. Specifically, during 2011, we recognized fair value losses on our pay-fixed swap positions of \$23.0 billion, partially offset by fair value gains on our receive-fixed swaps of \$12.6 billion. We also recognized fair value gains of \$7.2 billion during 2011 on our option-based derivatives, resulting from gains on our purchased call swaptions as interest rates decreased. Additionally, we recognized losses of \$5.0 billion related to the accrual of periodic settlements during 2011 due to our net pay-fixed swap position and a declining interest rate environment during the year.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings, which were related to non-agency mortgage-related securities, of \$1.5 billion, \$2.2 billion and \$2.3 billion during 2013, 2012, and 2011, respectively. The decreases in net impairments recognized in earnings during these periods were driven by improvements in forecasted home prices over the expected life of our available-for-sale securities. During 2013, the improvements in forecasted home prices were offset primarily by the impact of two changes: (a) the incorporation in the fourth quarter of 2013 of new information, which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market; and (b) an increase in the population of available-for-sale securities in an unrealized loss position which we intend to sell. During 2012, the improvements in forecasted home prices were offset by the impact of our implementation, in the fourth quarter of 2012, of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities," as well as "NOTE 7: INVESTMENTS IN SECURITIES" for additional information.

Other Gains (Losses) on Investment Securities Recognized in Earnings

Other gains (losses) on investment securities recognized in earnings consists of gains (losses) on trading securities and gains (losses) on sales of available-for-sale securities. Trading securities mainly consist of Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating-rate, interest-only and principal-only securities. With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium (i.e., net fair value was higher than UPB) as of December 31, 2013.

Other gains (losses) on investment securities recognized in earnings does not include the interest earned on investment securities, which is recorded as part of net interest income. For information about our interest-rate risk management strategy and framework, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK."

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We recognized $(1.6) billion, $(1.7) billion, and $(1.0) billion related to losses on trading securities during 2013, 2012, and 2011, respectively. The losses on trading securities during all periods were primarily due to the movement of securities with unrealized gains towards maturity.

We recognized $1.9 billion, $152 million, and $58 million of gains on sales of available-for-sale securities during 2013, 2012, and 2011, respectively. The increase in gains during 2013 resulted from increased sales volume related to our 2013 Conservatorship Scorecard goal to sell 5% of less liquid mortgage-related assets. In November 2013, FHFA announced that we achieved this scorecard objective.

Other Income (Loss)

The table below summarizes the significant components of other income.

Table 12 — Other Income (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Other income (loss):			
Non-agency mortgage-related securities settlements	$5,501	$—	$—
Gains (losses) on mortgage loans	(336)	1,010	829
Recoveries on loans impaired upon purchase[1]	261	380	473
Guarantee-related income, net[2]	400	343	245
All other	824	457	699
Total other income (loss)	$6,650	$2,190	$2,246

(1) Our recoveries principally relate to impaired loans purchased prior to 2010. Consequently, our recoveries on these loans will generally decline over time.

(2) Most of our guarantee-related income relates to securitized multifamily mortgage loans where we have not consolidated the securitization trusts on our consolidated balance sheets.

Non-Agency Mortgage-Related Securities Settlements

Non-agency mortgage-related securities settlements were $5.5 billion in 2013 compared to $0 in both 2012 and 2011. We had settlements with seven counterparties in 2013, while we had no such settlements in 2012 or 2011. For information on these settlements, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

Gains (Losses) on Mortgage Loans

We recognized gains (losses) on mortgage loans of $(0.3) billion, $1.0 billion and $0.8 billion during 2013, 2012 and 2011, respectively. The substantial majority of these amounts relate to multifamily loans which we designated for securitization and elected to carry at fair value. The losses in 2013 were primarily due to an increase in interest rates, compared to declines in interest rates in 2012. The gains in 2012 were due to favorable market spread movements, declines in interest rates, and higher balances of multifamily loans on our consolidated balance sheets. During 2013, 2012 and 2011, we sold $28.3 billion, $20.8 billion and $13.7 billion, respectively, in UPB of multifamily loans primarily through K Certificate transactions.

All Other

All other income (loss) includes income recognized from transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, and other miscellaneous income. All other income (loss) was $0.8 billion in 2013, compared to $0.5 billion in 2012 and $0.7 billion in 2011. The increase in 2013 was primarily due to higher compensatory fees assessed on servicers that failed to meet our timelines to complete a foreclosure of a loan.

Non-Interest Expense

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

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Table 13 — Non-Interest Expense

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Administrative expenses:			
Salaries and employee benefits	$833	$810	$832
Professional services	543	361	270
Occupancy expense	54	57	62
Other administrative expense	375	333	342
Total administrative expenses	1,805	1,561	1,506
REO operations (income) expense	(140)	59	585
Other expenses	424	573	392
Total non-interest expense	$2,089	$2,193	$2,483

Administrative Expenses

Our administrative expenses increased in 2013 and 2012 primarily due to an increase in professional services expense related to: (a) FHFA-led lawsuits regarding our investments in certain residential non-agency mortgage-related securities; (b) quality control reviews for single-family loans we acquired prior to being placed in conservatorship; (c) Conservatorship Scorecard initiatives, including development of the common securitization platform; and (d) infrastructure improvement projects, including establishment of an off-site, back-up data facility.

REO Operations (Income) Expense

The table below presents the components of our REO operations (income) expense.

Table 14 — REO Operations (Income) Expense

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
REO operations (income) expense:			
Single-family:			
REO property expenses[1]	$962	$1,203	$1,205
Disposition (gains) losses, net[2]	(746)	(682)	179
Change in holding period allowance, dispositions	(35)	(108)	(456)
Change in holding period allowance, inventory[3]	58	(9)	302
Recoveries[4]	(363)	(342)	(634)
Total single-family REO operations (income) expense	(124)	62	596
Multifamily REO operations (income) expense	(16)	(3)	(11)
Total REO operations (income) expense	$(140)	$59	$585

(1) Consists of costs incurred to maintain or protect a property after it is acquired in a foreclosure transfer, such as legal fees, insurance, taxes, and cleaning and other maintenance charges.
(2) Represents the difference between the disposition proceeds, net of selling expenses, and the fair value of the property on the date of the foreclosure transfer.
(3) Represents the (increase) decrease in the estimated fair value of properties that were in inventory during the period.
(4) Includes recoveries from primary mortgage insurance, pool insurance and seller/servicer repurchases.

REO operations (income) expense was $(140) million in 2013, as compared to $59 million in 2012 and $585 million in 2011. The improvement in 2013 compared to 2012 was primarily due to: (a) a decline in REO property expenses associated with a lower number of REO properties; and (b) improving home prices in certain geographical areas with significant REO activity. The improvement in 2012 compared to 2011 was primarily due to improving home prices in certain geographical areas with significant REO activity, partially offset by lower recoveries on REO properties, primarily due to reduced recoveries from mortgage insurers and a decline in reimbursements of losses from seller/servicers associated with repurchase requests.

We believe the volume of our single-family REO acquisitions in recent years was less than it otherwise would have been due to the length of the foreclosure process and increased volume of foreclosure alternatives. Lower acquisitions, coupled with high disposition levels, led to lower REO property levels in both 2013 and 2012, compared to the respective prior year. We expect the length of the foreclosure process will continue to remain above historical levels. Additionally, we expect our REO activity to remain at elevated levels, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. For information on our REO activity, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — REO, Net” and “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Non-Performing Assets.”

Other Expenses

Other expenses were $424 million, $573 million, and $392 million in 2013, 2012, and 2011 respectively. Other expenses in 2013 and 2012 include expenses related to the legislated 10 basis point increase in guarantee fees, which was implemented in April 2012. The expense for these fees was $533 million in 2013 and $108 million in 2012. These fees are remitted to Treasury on a quarterly basis. In addition, in February 2014, we reached a settlement with Lehman Brothers Holdings Inc. pursuant to which we will receive $767 million to resolve our claims related to Lehman’s bankruptcy. Consequently, we adjusted our December 31, 2013 estimate of the expected recoveries of our short-term lending receivable by $350 million, which reduced other expenses by the same amount. For information on this settlement, see "NOTE 17: LEGAL CONTINGENCIES.” The increase in other expenses in 2012 compared to 2011 was also due to expenses to establish legal reserves related to pending litigation. Other expenses also include HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses.

Income Tax Benefit

For 2013, we reported an income tax benefit of $23.3 billion primarily due to the release of the $26.4 billion valuation allowance against our net deferred tax assets compared to an income tax benefit of $1.5 billion and $0.4 billion for 2012 and 2011, respectively. For 2014, we expect that our effective tax rate will approximate the corporate statutory rate, which is currently 35%. See “NOTE 12: INCOME TAXES” for a discussion of the factors that led to our conclusion to release the valuation allowance against our net deferred tax assets in 2013.

Comprehensive Income (Loss)

Our comprehensive income (loss) was $51.6 billion, $16.0 billion, and $(1.2) billion for the years ended December 31, 2013, 2012, and 2011, respectively, consisting of: (a) $48.7 billion, $11.0 billion, and $(5.3) billion of net income (loss), respectively; and (b) $2.9 billion, $5.1 billion, and $4.0 billion of other comprehensive income, respectively. The other comprehensive income in these periods primarily related to fair value gains on our single-family non-agency mortgage-related available-for-sale securities. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Total Equity (Deficit)” for additional information regarding total other comprehensive income.

Segment Earnings

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

The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.

The Investments segment reflects results from three primary activities: (a) managing the company’s mortgage-related investments portfolio, excluding Multifamily segment investments; (b) managing the treasury function, including funding and liquidity, for the overall company; and (c) managing interest-rate risk for the overall company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses. In addition, the Investments segment reflects changes in the fair value of the Multifamily segment investment securities, primarily CMBS, and held-for-sale loans that are associated with changes in interest rates.

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs. In addition, the Multifamily segment reflects the impact of changes in fair value of our investment securities and held-for-sale loans associated with market factors other than changes in interest rates, such as liquidity and credit.

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. The financial performance of our Single-family Guarantee segment and

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Multifamily segment are measured based on each segment's contribution to GAAP net income (loss). Our Investments segment is measured on its contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes. The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss).

The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. The All Other category also includes the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward, the release of our valuation allowance against our net deferred tax assets, amounts related to the termination of our pension plan, and tax settlements, as applicable. Segment Earnings for the All Other category was $23.9 billion, $788 million, and $49 million for 2013, 2012, and 2011, respectively. Segment Earnings for the All Other category for 2013 reflects a benefit for federal income taxes that resulted from the release of our valuation allowance against our net deferred tax assets. Segment Earnings for the All Other category for 2012 primarily reflects an agreement in principle we reached with the IRS regarding litigation related to various uncertain tax positions. Based on the favorable resolution of the matters in dispute, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012. For more information regarding the litigation with the IRS, see "NOTE 17: LEGAL CONTINGENCIES — IRS Litigation."

In presenting Segment Earnings, we make significant reclassifications among certain financial statement line items in order to reflect a measure of management and guarantee income on guarantees and a measure of net interest income on investments that is in line with how we manage our business. These include reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income. We also allocate certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

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

See "BUSINESS — Our Business Segments" for further information regarding our segments, including the descriptions and activities of our segments, and "NOTE 13: SEGMENT REPORTING" for further information regarding the reclassifications and allocations used to present Segment Earnings.

The table below provides information about our various segment mortgage and credit risk portfolios at December 31, 2013 and 2012. For a discussion of each segment's portfolios, see "Segment Earnings — Results."

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Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios[1]

	December 31, 2013	December 31, 2012
	(in millions)	
Segment mortgage portfolios:		
Single-family Guarantee — Managed loan portfolio[2]:		
Single-family unsecuritized mortgage loans[3]	$37,726	$53,333
Single-family Freddie Mac mortgage-related securities held by us	165,247	184,381
Single-family Freddie Mac mortgage-related securities held by third parties	1,361,972	1,335,393
Single-family other guarantee commitments[4]	19,872	13,798
Total Single-family Guarantee — Managed loan portfolio	1,584,817	1,586,905
Investments — Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans[5]	84,411	91,411
Freddie Mac mortgage-related securities	165,247	184,381
Non-agency mortgage-related securities	64,524	76,457
Non-Freddie Mac agency mortgage-related securities	16,889	23,675
Total Investments — Mortgage investments portfolio	331,071	375,924
Multifamily — Guarantee portfolio:		
Multifamily Freddie Mac mortgage related securities held by us	2,787	2,382
Multifamily Freddie Mac mortgage related securities held by third parties	62,505	39,884
Multifamily other guarantee commitments[4]	9,288	9,657
Total Multifamily — Guarantee portfolio	74,580	51,923
Multifamily — Mortgage investments portfolio:		
Multifamily investment securities portfolio	33,056	51,718
Multifamily unsecuritized loan portfolio	59,171	76,569
Total Multifamily — Mortgage investments portfolio	92,227	128,287
Total Multifamily portfolio	166,807	180,210
Less: Freddie Mac single-family and certain multifamily securities[6]	(168,034)	(186,763)
Total mortgage portfolio	$1,914,661	$1,956,276
Credit risk portfolios:[7]		
Single-family credit guarantee portfolio:[2]		
Single-family mortgage loans, on-balance sheet	$1,630,859	$1,621,774
Non-consolidated Freddie Mac mortgage-related securities	6,961	8,897
Other guarantee commitments[4]	19,872	13,798
Less: HFA initiative-related guarantees[8]	(4,051)	(6,270)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates[8]	(541)	(654)
Total single-family credit guarantee portfolio	$1,653,100	$1,637,545
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet[9]	$59,615	$77,017
Non-consolidated Freddie Mac mortgage-related securities	64,848	41,819
Other guarantee commitments[4]	9,288	9,657
Less: HFA initiative-related guarantees[8]	(905)	(1,112)
Total multifamily mortgage portfolio	$132,846	$127,381

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2)

The balances of the mortgage-related securities in the Single-family Guarantee managed loan portfolio are based on the UPB of the security, whereas the balances of our single-family credit guarantee portfolio presented in this report are based on the UPB of the mortgage loans underlying the related security. The differences in the loan and security balances result from the timing of remittances to security holders, which is typically 45 or 75 days after the mortgage payment cycle of fixed-rate and ARM PCs, respectively.

(3) Represents unsecuritized seriously delinquent single-family loans.

(4) Represents the UPB of mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.

(5) Excludes unsecuritized seriously delinquent single-family loans. The Single-family Guarantee segment earns management and guarantee fees associated with unsecuritized single-family loans in the Investments segment's mortgage investments portfolio.

(6) Freddie Mac single-family mortgage-related securities held by us are included in both our Investments segment's mortgage investments portfolio and our Single-family Guarantee segment's managed loan portfolio, and Freddie Mac multifamily mortgage-related securities held by us are included in both the multifamily investment securities portfolio and the multifamily guarantee portfolio. Therefore, these amounts are deducted in order to reconcile to our total mortgage portfolio.

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(7) Represents the UPB of loans for which we present characteristics, delinquency data, and certain other statistics in this report. See "GLOSSARY" for further description.
(8) We exclude HFA initiative-related guarantees and our resecuritizations of Ginnie Mae certificates from our credit risk portfolios and most related statistics because these guarantees do not expose us to meaningful amounts of credit risk due to the credit enhancement provided on them by the U.S. government.
(9) Includes both unsecuritized multifamily mortgage loans and multifamily mortgage loans in consolidated trusts.

Segment Earnings — Results

Single-Family Guarantee

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

Table 16 — Segment Earnings and Key Metrics — Single-Family Guarantee[1]

	Year Ended December 31,					
	2013		2012		2011	
	(dollars in millions)					
Segment Earnings:						
Net interest income (expense)	$320		$(147	)	$(23	)
Benefit (provision) for credit losses	1,409		(3,168	)	(12,294	)
Non-interest income:						
Management and guarantee income	4,930		4,389		3,647	
Other non-interest income	1,162		931		1,216	
Total non-interest income	6,092		5,320		4,863	
Non-interest expense:						
Administrative expenses	(1,025	)	(890	)	(888	)
REO operations income (expense)	124		(62	)	(596	)
Other non-interest expense	(712	)	(393	)	(321	)
Total non-interest expense	(1,613	)	(1,345	)	(1,805	)
Segment adjustments[2]	(694	)	(832	)	(699	)
Segment Earnings (loss) before income tax (expense) benefit	5,514		(172	)	(9,958	)
Income tax (expense) benefit	282		8		(42	)
Segment Earnings (loss), net of taxes	5,796		(164	)	(10,000	)
Total other comprehensive income (loss), net of taxes	49		(63	)	30	
Total comprehensive income (loss)	$5,845		$(227	)	$(9,970	)
Key metrics:						
Balances and Volume (in billions, except rate):						
Average balance of single-family credit guarantee portfolio and HFA guarantees	$1,644		$1,692		$1,801	
Issuance — Single-family credit guarantees[3]	$435		$446		$305	
Fixed-rate products — Percentage of purchases[4]	96	%	96	%	92	%
Liquidation rate — Single-family credit guarantees[5]	28	%	33	%	24	%
Average Management and Guarantee Rate (in bps):[6]						
Segment Earnings management and guarantee income[7]	30.0		25.9		20.2	
Guarantee fee charged on new acquisitions[8]	51.4		38.3		26.8	
Credit:						
Serious delinquency rate, at end of period	2.39	%	3.25	%	3.58	%
REO inventory, at end of period (number of properties)	47,307		49,071		60,535	
Single-family credit losses, in bps[9]	28.8		68.3		72.0	
Market:						
	$9,864		$9,930		$10,183	

Single-family mortgage debt outstanding (total U.S. market, in billions)(10)			
30-year fixed mortgage rate(11)	4.5 %	3.4 %	4.0 %

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see "NOTE 13: SEGMENT REPORTING — Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

(2) For a description of our segment adjustments, see "NOTE 13: SEGMENT REPORTING — Segment Earnings."

(3) Represents the UPB of loans underlying Freddie Mac mortgage-related securities and other guarantee commitments.

(4) Excludes Other Guarantee Transactions.

(5) Represents principal repayments relating to loans underlying Freddie Mac mortgage-related securities and other guarantee commitments, including those related to our removal of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans from PC pools.

(6) Includes the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012. 2013 also includes an additional across-the-board increase in guarantee fees that became effective in the fourth quarter of 2012. Also includes the effect of pricing adjustments that are based on the price performance of our PCs relative to comparable Fannie Mae securities.

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

(8) Represents the estimated rate of management and guarantee fees for new acquisitions during the period assuming amortization of delivery fees using the estimated life of the related loans rather than the original contractual maturity date of the related loans.

(9) Calculated as the amount of single-family credit losses divided by the sum of the average carrying value of our single-family credit guarantee portfolio and the average balance of our single-family HFA initiative-related guarantees.

(10) Source: Federal Reserve Financial Accounts of the United States of America dated December 9, 2013. The outstanding amount for December 31, 2013 reflects the balance as of September 30, 2013.

(11) Based on Freddie Mac's Primary Mortgage Market Survey rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender. This commitment rate applies only to financing on conforming mortgages with LTV ratios of 80%.

Segment Earnings (loss) for our Single-family Guarantee segment improved to $5.8 billion in 2013 compared to $(0.2) billion in 2012, and $(10.0) billion in 2011. The improvement in 2013 was primarily due to a shift from provision for credit losses of $3.2 billion in 2012 to a benefit for credit losses of $1.4 billion in 2013 and increased management and guarantee income. The improvement in 2012, compared to 2011, was primarily due to a significant decline in Segment Earnings provision for credit losses.

Segment Earnings (loss) for the Single-family Guarantee segment is largely driven by management and guarantee fee income and the benefit (provision) for credit losses. The table below provides summary information about the composition of Segment Earnings (loss) for this segment, by guarantee and loan origination years, for 2013 and 2012.

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Table 17 — Segment Earnings Composition — Single-Family Guarantee Segment

	Year Ended December 31, 2013				
	Segment Earnings Management and Guarantee Income(1)		Credit-Related Benefit (Expense) (2)(3)		
	Amount	Average Rate(4)	Amount	Average Rate(4)	Net Amount(5)
	(dollars in millions, rates in bps)				
Year of origination:(5)					
2013	$614	34.4	$(12)	(0.7)	$602
2012	845	32.5	(21)	(0.7)	824
2011	458	34.7	(19)	(1.4)	439
2010	422	34.5	(14)	(1.1)	408
2009	407	29.3	(17)	(1.2)	390
Subtotal - New single-family book	2,746	33.0	(83)	(1.0)	2,663
HARP and other relief refinance loans(6)	1,065	33.1	(563)	(16.7)	502
2005-2008 Legacy single-family book	774	23.3	1,826	60.5	2,600
Pre-2005 Legacy single-family book	345	21.7	353	20.2	698
Total	$4,930	30.0	$1,533	9.2	$6,463
Administrative expenses					(1,025)
Net interest income (expense)					320
Other non-interest income (expenses), net					38
Segment Earnings (loss), net of taxes					$5,796

	Year Ended December 31, 2012				
	Segment Earnings Management and Guarantee Income(1)		Credit-Related Benefit (Expense) (2)		
	Amount	Average Rate(4)	Amount	Average Rate(4)	Net Amount(5)
	(dollars in millions, rates in bps)				
Year of origination:(5)					
2012	$380	27.9	$(13)	(0.9)	$367
2011	610	32.0	(33)	(1.7)	577
2010	586	32.0	(61)	(3.3)	525
2009	672	29.9	(120)	(5.5)	552
Subtotal - New single-family book	2,248	30.6	(227)	(3.1)	2,021
HARP and other relief refinance loans(6)	601	24.8	(640)	(24.3)	(39)
2005-2008 Legacy single-family book	1,057	21.8	(2,440)	(54.3)	(1,383)
Pre-2005 Legacy single-family book	483	21.1	77	3.1	560
Total	$4,389	25.9	$(3,230)	(19.0)	$1,159
Administrative expenses					(890)
Net interest income (expense)					(147)
Other non-interest income (expenses), net					(286)
Segment Earnings (loss), net of taxes					$(164)

(1) Reflects the monthly management and guarantee fees. Beginning in the fourth quarter of 2012, includes the net impact of buy-down transactions. Includes amortization of delivery and other upfront fees based on the original contractual maturity date of the related loans of $2.3 billion and $1.9 billion for 2013 and 2012, respectively. Includes the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012. Results for 2013 also include an additional across-the-board increase in guarantee fees that became effective in the fourth quarter of 2012. Prior period information has been revised to conform with the current period presentation. See endnote (6) for further information.

(2) Consists of the aggregate of the Segment Earnings benefit (provision) for credit losses and Segment Earnings REO operations income (expense). Historical rates of average credit-related benefit (expense) may not be representative of future results. Prior period information has been revised to conform with the current period presentation. See endnote (6) for further information.

(3) Reflects our settlement agreements with certain sellers in 2013 for release of certain repurchase obligations primarily associated with loans in our Legacy single-family books in exchange for one-time cash payments.

(4) Calculated as the amount of Segment Earnings management and guarantee income or credit-related benefit (expense), respectively, divided by the sum of the average carrying values of the single-family credit guarantee portfolio and the average balance of our single-family HFA initiative-related guarantees. Prior period information has been revised to conform with the current period presentation. See endnote (6) for further information.

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(5) Calculated as Segment Earnings management and guarantee income less credit-related benefit (expense). Prior period information has been revised to conform with the current period presentation. See endnote (6) for further information.

(6) Segment Earnings management and guarantee income is presented by year of guarantee origination (except for HARP and other relief refinance loans), whereas credit-related benefit (expense) is presented based on year of loan origination. HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2013). All other refinance loans are presented in the year that the refinancing occurred. Prior period information has been revised to conform with the current period presentation.

We continue to maintain a consistent market presence by providing lenders with a constant source of liquidity for conforming mortgage products. Issuances of our guarantees were $435 billion and $446 billion in 2013 and 2012, respectively, and predominantly consisted of refinance mortgages, including HARP and other relief refinance loans. During 2013, refinancings comprised approximately 73% of our single-family purchase and issuance volume, compared with 82% in 2012 and 78% in 2011.

We refer to single-family loans we acquired beginning in 2009, excluding HARP and other relief refinance mortgages, as our New single-family book. We do not include relief refinance mortgages, including HARP loans, in our New single-family book, since underwriting procedures for relief refinance mortgages are limited, and, in many cases, do not include all of the changes in underwriting standards we have implemented since 2008. As a result, relief refinance mortgages generally reflect many of the credit risk attributes of the original loans (many of which were originated between 2005 and 2008).

Our New single-family book continues to represent an increasing share of our overall single-family guarantee portfolio and comprised 54% of this portfolio as of December 31, 2013. The New single-family book has low delinquency rates and credit losses. The serious delinquency rate for the New single-family book was 0.24% as of December 31, 2013 and its credit losses were $135 million in 2013, representing 3% of our credit losses. As of December 31, 2013, loans originated after 2008 have, on a cumulative basis, provided management and guarantee income that has exceeded the credit-related and administrative expenses associated with these loans. We expect this book to continue to be profitable for us over the long term. For more information on the composition of our single-family credit guarantee portfolio, see "Table 36 — Single-Family Credit Guarantee Portfolio Data by Year of Origination."

We executed three transactions during 2013 that transfer a mezzanine credit loss position on certain groups of loans in our New single-family book. These transactions were consistent with our 2013 Conservatorship Scorecard goal to demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion in aggregate UPB, subject to certain limitations. These transactions are intended to shift mortgage credit risk from us to private investors. These transactions consisted of two STACR debt note transactions as well as an additional risk transfer transaction using third-party insurance. In November 2013, FHFA announced that we had achieved this Scorecard objective. We will seek to expand and refine our offerings of credit risk transfer transactions in the future. For more information on our STACR debt note transactions, see "BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements."

In 2013, we recognized credit-related benefits associated with our 2005-2008 Legacy single-family book largely due to: (a) improvements in home prices, which resulted in lower estimates of incurred losses; and (b) settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. However, on a cumulative basis, our management and guarantee income associated with guarantee issuances in 2005 through 2008 has not been adequate to cover the credit-related and administrative expenses associated with such loans, primarily due to the high rate of defaults on the loans originated in those years.

HARP and other relief refinance loans represent a significant portion of our single-family credit guarantee portfolio. Relief refinance mortgages (including HARP loans) generally present higher risk to us than other refinance loans we have purchased since 2009 because:

- underwriting procedures for relief refinance mortgages are limited in many cases, and such procedures generally do not include all of the changes in underwriting standards we have implemented since 2008;
-

many of these loans have relatively high LTV ratios (e.g., greater than 90%), which can increase the probability of default and increase the amount of our loss if the borrower does default;

- HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%; and
- beginning with changes announced in the fourth quarter of 2011, we have relieved the lenders of certain representations and warranties on the original mortgage being refinanced, which limits our ability to seek recovery or repurchase from the seller for breach.

However, relief refinance mortgages (including HARP loans) generally have performed better than loans with similar characteristics remaining in our single-family credit guarantee portfolio that were originated prior to 2009. For information on the potential credit risks related to these loans, see "RISK MANAGEMENT — Credit Risk —Mortgage Credit Risk — Single-Family Mortgage Credit Risk — Single-Family Loan Workouts and the MHA Program."

Segment Earnings management and guarantee income was $4.9 billion in 2013 compared to $4.4 billion 2012 and $3.6 billion in 2011. The improvement in 2013 compared to 2012 was primarily due to an increase in amortization of buy-down fees (which we began recording in the Single-family Guarantee segment during the fourth quarter of 2012). Segment Earnings management and guarantee income also benefited in 2013 from higher guarantee fees. At the direction of FHFA, we

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implemented two across-the-board increases in guarantee fees in 2012. The average management and guarantee fee we charged for new acquisitions in 2013 was 51.4 basis points (including the legislated 10 basis point increase), compared to 38.3 basis points in 2012. The guarantee fee we charge on new acquisitions generally consists of a combination of delivery fees as well as a base monthly fee. The average guarantee fee charged on new acquisitions represents our expected guarantee fee rate over the estimated life of the related loans using certain assumptions for prepayments and other liquidations. We seek to issue guarantees with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term: (a) provide management and guarantee fee income that exceeds our anticipated credit-related and administrative expenses on the underlying loans; and (b) provide a return on the capital that would be needed to support the related credit risk.

The improvement in Segment Earnings management and guarantee income in 2012 compared to 2011 was primarily due to an increase in amortization of both delivery fees and buy-down fees. We amortize these upfront fees based on the original contractual maturity date of the loan rather than the loan's estimated life. As a result, the amount of Segment Earnings management and guarantee income we recognize related to upfront fees is lower in the initial years of a loan and increases during periods of high refinance or prepayment activity as unamortized upfront fees for loans are recognized in income when the loans are refinanced or prepaid.

Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the relative price performance of our PCs compared to comparable Fannie Mae securities. A decline in security performance could negatively impact our segment financial results. See "RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates" for additional information.

In December 2013, FHFA announced a number of additional increases to our guarantee fee rates. In January 2014, FHFA announced that it was delaying the implementation of these changes.

The UPB of the Single-family Guarantee managed loan portfolio was $1.6 trillion at both December 31, 2013 and 2012. We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2014 compared to 2013. However, we believe that the recent increase in mortgage interest rates and potential further increases will result in a decline, which could be significant, in overall single-family mortgage originations. As a result, we expect our purchase volumes will likely decline, potentially significantly, during 2014. The expected decline in purchase volume is expected to be offset by a decline in prepayments resulting from higher mortgage interest rates.

The liquidation rate on our single-family credit guarantees was approximately 28%, 33%, and 24% for 2013, 2012, and 2011, respectively. Although the annualized liquidation rate remained high in 2013, it declined compared to 2012 primarily due to an increase in interest rates and lower refinancing activity.

Benefit (provision) for credit losses for the Single-family Guarantee segment was $1.4 billion in 2013, $(3.2) billion in 2012, and $(12.3) billion in 2011. The significant improvements in benefit (provision) for credit losses in 2013 and 2012 reflect: (a) declines in the volume of newly delinquent loans (largely due to a decline in our 2005-2008 Legacy single-family book); and (b) lower estimates of incurred losses largely resulting from the positive impact of an increase in national home prices. Assuming that all other factors remain the same, an increase in home prices can reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default. Our benefit (provision) for credit losses in 2013 also reflects $1.7 billion of benefit related to settlement agreements with certain sellers for the release of repurchase obligations in exchange for one-time cash payments, primarily associated with our Legacy single-family books. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS - Seller/Servicers" for more information about these agreements.

The serious delinquency rate on our single-family credit guarantee portfolio was 2.39%, 3.25%, and 3.58% as of December 31, 2013, 2012, and 2011, respectively. Charge-offs, net of recoveries, associated with single-family loans were $4.9 billion, $11.6 billion, and $12.4 billion in 2013, 2012, and 2011, respectively. Our recoveries in 2013 and 2012 included approximately $2.8 billion and $0.7 billion, respectively, related to repurchase requests from our seller/servicers (including amounts related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments). Single-family credit losses as a percentage of the average balance of the single-family credit guarantee portfolio and HFA initiative-related guarantees were 28.8 basis points, 68.3 basis points, and 72.0 basis points for 2013, 2012 and 2011, respectively. See “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk” for further information on our single-family credit guarantee portfolio, including credit performance, serious delinquency rates, charge-offs, and our non-performing assets.

Other non-interest income for the Single-family Guarantee segment was $1.2 billion in 2013, compared to $0.9 billion in 2012 and $1.2 billion in 2011. The increase in 2013 was primarily due to higher compensatory fees assessed on servicers that failed to meet our timelines to complete a foreclosure of a loan. These compensatory fees increased to approximately $0.4 billion in 2013, compared to approximately $0.2 billion and $0.1 billion in 2012 and 2011, respectively. The decrease in other non-interest income in 2012 compared to 2011 was primarily due to: (a) income recognized in 2011 related to proceeds

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received from certain repurchase settlements while no such income was recognized in 2012; and (b) lower recoveries related to loans impaired upon purchase in 2012.

REO operations income (expense) for the Single-family Guarantee segment was $124 million in 2013, compared to $(62) million in 2012, and $(596) million in 2011. The improvement in 2013 compared to 2012 was primarily due to: (a) a decline in REO property expenses associated with a lower number of REO properties; and (b) improving home prices in certain geographical areas with significant REO activity. The improvement in 2012 compared to 2011 was primarily due to improving home prices in certain geographical areas with significant REO activity, partially offset by lower recoveries on REO properties, primarily due to reduced recoveries from mortgage insurers and a decline in reimbursements of losses from seller/servicers associated with repurchase requests.

Our REO inventory (measured in number of properties) declined 4% and 19% in 2013 and 2012, respectively, primarily due to lower foreclosure activity as a result of our loss mitigation efforts and a declining amount of delinquent loans. Although there was an improvement in REO disposition severity during 2013 and 2012, the REO disposition severity ratios on sales of our REO inventory remain high as compared to periods before 2008. See "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Non-Performing Assets" for additional information about our REO activity.

Other non-interest expense for the Single-family Guarantee segment was $0.7 billion in 2013, compared to $0.4 billion in 2012 and $0.3 billion in 2011. The increase in 2013 and 2012, compared to the respective prior year, was primarily due to expenses related to the legislated 10 basis point increase to guarantee fees, which we implemented in April 2012. As of December 31, 2013, the cumulative total of amounts paid and due to Treasury related to this increase was $641 million, including $533 million for 2013.

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Investments

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

Table 18 — Segment Earnings and Key Metrics — Investments[1]

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
Segment Earnings:			
Net interest income	$3,525	$5,726	$7,168
Non-interest income (loss):			
Net impairment of available-for-sale securities recognized in earnings	(974)	(1,831)	(1,833)
Derivative gains (losses)	6,806	1,970	(3,597)
Gains (losses) on trading securities	(1,588)	(1,755)	(993)
Gains (losses) on mortgage loans	(817)	303	529
Other non-interest income	9,612	2,741	1,437
Total non-interest income (loss)	13,039	1,428	(4,457)
Non-interest expense:			
Administrative expenses	(523)	(430)	(398)
Other non-interest expense	349	(1)	(2)
Total non-interest expense	(174)	(431)	(400)
Segment adjustments[2]	1,037	799	661
Segment Earnings before income tax benefit	17,427	7,522	2,972
Income tax (expense) benefit	(825)	690	394
Segment Earnings, net of taxes	16,602	8,212	3,366
Total other comprehensive income, net of taxes	3,685	3,185	3,107
Comprehensive income	$20,287	$11,397	$6,473
Key metrics:			
Portfolio balances:			
Average balances of interest-earning assets:[3][4]			
Mortgage-related securities[5]	$278,200	$308,698	$386,115
Non-mortgage-related investments[6]	97,070	98,176	97,519
Single-family unsecuritized loans[7]	88,827	97,951	94,894
Total average balances of interest-earning assets	$464,097	$504,825	$578,528
Return:			
Net interest yield — Segment Earnings basis	0.76 %	1.13 %	1.24 %

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see "NOTE 13: SEGMENT REPORTING — Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

(2) For a description of our segment adjustments, see "NOTE 13: SEGMENT REPORTING — Segment Earnings."

(3) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(4) We calculate average balances based on amortized cost.

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

(6) Includes the average balances of interest-earning cash and cash equivalents, non-mortgage-related securities, and federal funds sold and securities purchased under agreements to resell.

(7) Excludes unsecuritized seriously delinquent single-family mortgage loans.

2013 vs. 2012

Segment Earnings for our Investments segment increased by $8.4 billion to $16.6 billion in 2013 compared to $8.2 billion in 2012, primarily due to increases in other non-interest income and derivative gains. Comprehensive income for our Investments segment increased by $8.9 billion to $20.3 billion in 2013 compared to $11.4 billion in 2012, primarily due to higher Segment Earnings.

During 2013, the UPB of the Investments segment mortgage investments portfolio decreased by 12%. We held $182.1 billion and $208.1 billion of agency securities, $64.5 billion and $76.5 billion of non-agency mortgage-related securities, and $84.4 billion and $91.4 billion of single-family unsecuritized mortgage loans at December 31, 2013 and 2012, respectively. The decline in UPB of agency securities is due mainly to liquidations. The decline in UPB of these non-agency mortgage-related securities is due mainly to the receipt of principal repayments from both the recoveries from liquidated loans and voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities, and sales during 2013. The decline in the UPB of single-family unsecuritized mortgage loans is primarily related to prepayments of mortgage loans held and the securitization of mortgage loans that we had purchased for cash, and includes the securitization of reperforming loans and modified loans, partially offset by the addition of newly performing loans from the Single-family Guarantee segment. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" and "— Mortgage Loans" for additional information regarding our mortgage-related securities and mortgage loans.

Segment Earnings net interest income decreased by $2.2 billion and Segment Earnings net interest yield decreased by 37 basis points during 2013 compared to 2012. The primary drivers of the decreases were the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations coupled with purchases at lower yields. These factors were partially offset by lower funding costs primarily due to the replacement of debt at lower rates.

Segment Earnings non-interest income was $13.0 billion in 2013 compared to $1.4 billion in 2012. The improvement was primarily due to increases in other non-interest income and derivative gains and a decrease in net impairments of available-for-sale securities recognized in earnings, partially offset by losses on mortgage loans.

We recorded derivative gains for this segment of $6.8 billion during 2013 compared to $2.0 billion during 2012. The increase in derivative gains was primarily due to an increase in longer-term interest rates during 2013, compared to a decrease in longer-term interest rates during 2012, coupled with a change in the mix of our derivatives. See "Non-Interest Income (Loss) — Derivative Gains (Losses)" for additional information on our derivatives.

Net impairment of available-for-sale securities recognized in earnings in our Investments segment was $1.0 billion during 2013 compared to $1.8 billion during 2012. The decrease in net impairments was primarily due to improvements in forecasted home prices over the expected life of the available-for-sale securities during 2013. During 2013, the improvements in forecasted home prices were offset primarily by the impact of two changes: (a) the incorporation in the fourth quarter of 2013 of new information, which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market; and (b) an increase in the population of available-for-sale securities in an unrealized loss position which we intend to sell. In the fourth quarter of 2012, we implemented the use of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities," as well as "NOTE 7: INVESTMENTS IN SECURITIES" for additional information on our impairments.

We recorded gains (losses) on trading securities of $(1.6) billion during 2013 compared to $(1.8) billion during 2012. The losses on trading securities during both periods were primarily due to the movement of securities with unrealized gains towards maturity.

We recorded gains (losses) on mortgage loans, primarily related to movements in interest rates on our multifamily held-for-sale loans, of $(817) million during 2013 compared to $303 million during 2012. The losses on mortgage loans during 2013 were primarily due to an increase in interest rates while the gains on mortgage loans during 2012 were due to a decline in interest rates.

We recorded other non-interest income for this segment of $9.6 billion during 2013 compared to $2.7 billion during 2012. The increase in other non-interest income primarily resulted from: (a) settlements associated with our investments in certain non-agency mortgage-related securities; (b) increased gains on sales of available-for-sale securities resulting from increased sales volume related to our 2013 Conservatorship Scorecard goal to sell 5% of less liquid mortgage-related assets, as well as sales of agency REMIC securities; and (c) increased gains on the retirement of other debt largely due to higher premiums held on the debt that was called in 2013. The gains on sales of available-for-sale securities includes the estimated amount of gains on sales of Multifamily segment CMBS attributed to changes in interest rates. For information on the settlement agreements, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

We recorded a benefit in other non-interest expense for this segment of $349 million during 2013 compared to an expense of $1 million in 2012. The benefit in 2013 resulted from an adjustment of $350 million to expected recoveries of our short-term lending receivable related to a settlement with Lehman Brothers Holdings Inc. in February 2014. For information on this settlement, see "NOTE 17: LEGAL CONTINGENCIES."

Our Investments segment's other comprehensive income was $3.7 billion during 2013 compared to $3.2 billion during 2012. The increase in other comprehensive income was primarily due to higher fair values on our single-family non-agency mortgage-related securities, as these securities were affected by spread tightening in 2013, partially offset by losses on our agency mortgage-related securities resulting from the increase in long-term interest rates. Changes in fair value of the Multifamily segment investment securities, excluding impacts from the changes in interest rates, which are included in the Investments segment, are reflected in the Multifamily segment.

2012 vs. 2011

Segment Earnings for our Investments segment increased by $4.8 billion to $8.2 billion in 2012 compared to $3.4 billion in 2011, primarily due to derivative gains during 2012 versus derivative losses during 2011. Comprehensive income for our Investments segment increased by $4.9 billion to $11.4 billion in 2012, compared to $6.5 billion in 2011, primarily due to higher Segment Earnings. Other comprehensive income was relatively unchanged in 2012 compared to 2011, as higher gains on our non-agency mortgage-related securities were largely offset by the impact of a smaller decline in interest rates and less spread tightening on our agency securities.

During 2012, the UPB of the Investments segment mortgage investments portfolio decreased by 16%. We held $208.1 billion and $253.6 billion of agency securities, $76.5 billion and $86.5 billion of non-agency mortgage-related securities, and $91.4 billion and $109.2 billion of single-family unsecuritized mortgage loans at December 31, 2012 and 2011, respectively. The decline in UPB of agency securities is due mainly to liquidations. The decline in UPB of these non-agency mortgage-related securities is due mainly to the receipt of principal repayments from both the recoveries from liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities. The decline in the UPB of single-family unsecuritized mortgage loans is primarily related to our securitization of mortgage loans that we had purchased for cash. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" and "— Mortgage Loans" for additional information regarding our mortgage-related securities and mortgage loans.

Segment Earnings net interest income decreased $1.4 billion, and Segment Earnings net interest yield decreased 11 basis points during 2012 compared to 2011. The primary driver of the decreases was the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations, partially offset by lower funding costs primarily due to the replacement of debt at lower rates.

Segment Earnings non-interest income (loss) was $1.4 billion in 2012 compared to $(4.5) billion in 2011. This improvement was primarily due to derivative gains during 2012 versus derivative losses during 2011 and an increase in other non-interest income, partially offset by an increase in losses on trading securities.

We recorded derivative gains (losses) for this segment of $2.0 billion during 2012 compared to $(3.6) billion during 2011. This improvement was primarily due to the impact of a smaller decline in interest rates coupled with a yield curve steepening in 2012 compared to 2011. In addition, a change in the mix of our derivatives portfolio, whereby we increased our holdings of receive-fixed swaps relative to pay-fixed swaps as we rebalanced our portfolio during a period of steadily declining interest rates in 2012, contributed to the gain.

Impairments recorded in our Investments segment were $1.8 billion during both 2012 and 2011. In the fourth quarter of 2012 we implemented the use of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities as discussed above. Absent the adverse impact from the implementation of the third-party model, our 2012 impairments were otherwise positively impacted by improvements in forecasted home prices over the expected life of the available-for-sale securities and lower interest rates, resulting in a benefit from expected structural credit enhancements on the securities.

We recorded gains (losses) on trading securities of $(1.8) billion during 2012 compared to $(1.0) billion during 2011. The losses on trading securities during both periods were primarily due to the movement of securities with unrealized gains towards maturity. These losses were partially offset by the increase in the fair value of our trading securities as a result of the decline in interest rates during 2012 and 2011. The increased losses in 2012 compared to 2011 resulted from lower interest rate-related gains in 2012 as interest rates declined less in 2012 compared to 2011.

We recorded gains (losses) on mortgage loans of $303 million during 2012, compared to $529 million during 2011. The gains on mortgage loans during both periods were primarily due to declines in interest rates.

Other non-interest income (loss) for this segment was $2.7 billion during 2012 compared to $1.4 billion during 2011. The improvement in other non-interest income was primarily due to an increase in amortization income related to premiums on debt securities of consolidated trusts held by third parties. This amortization income increased due to additional prepayments on the debt securities of consolidated trusts held by third parties due in part to the low interest rate environment and an increase in basis adjustments. Basis adjustments related to these debt securities of consolidated trusts held by third parties are generated through the securitization and sale of retained mortgage loans or sales of Freddie Mac mortgage-related securities from our mortgage-related investments portfolio.

Our Investments segment's total other comprehensive income was relatively unchanged at $3.2 billion during 2012 compared to $3.1 billion during 2011, as higher gains on our non-agency mortgage-related securities were largely offset by the impact of a smaller decline in interest rates and less spread tightening on our agency securities.

For a discussion of items that have affected our Investments segment net interest income over time, and can be expected to continue to do so, see "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

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Multifamily

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

Table 19 — Segment Earnings and Key Metrics — Multifamily[1]

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
Segment Earnings:			
Net interest income	$1,186	$1,291	$1,200
Benefit for credit losses	218	123	196
Non-interest income:			
Management and guarantee income	206	151	127
Net impairment of available-for-sale securities recognized in earnings	(15)	(123)	(353)
Gains on mortgage loans	481	707	300
Other non-interest income	648	363	128
Total non-interest income	1,320	1,098	202
Non-interest expense:			
Administrative expenses	(257)	(241)	(220)
REO operations income (expense)	16	3	11
Other non-interest expense	(24)	(129)	(69)
Total non-interest expense	(265)	(367)	(278)
Segment Earnings before income tax benefit (expense)	2,459	2,145	1,320
Income tax benefit (expense)	(81)	1	(1)
Segment Earnings, net of taxes	2,378	2,146	1,319
Total other comprehensive income (loss), net of taxes	(923)	1,935	899
Total comprehensive income	$1,455	$4,081	$2,218
Key metrics:			
Balances and Volume:			
Average balance of Multifamily unsecuritized loan portfolio	$69,583	$80,826	$83,593
Average balance of Multifamily guarantee portfolio	$63,689	$43,247	$29,861
Average balance of Multifamily investment securities portfolio	$44,226	$54,992	$61,296
Multifamily new business activity[2]	$25,872	$28,774	$20,325
Multifamily units financed from new business activity[2]	387,940	435,653	311,046
Multifamily K Certificate transactions — guaranteed portion	$23,696	$17,922	$11,722
Multifamily K Certificate transactions — unguaranteed portion[3]	$4,340	$3,281	$1,936
Yield and Rate:			
Net interest yield — Segment Earnings basis	1.03%	0.95%	0.83%
Average Management and guarantee fee rate, in bps:[4]			
K Certificate guarantees	19.7	19.0	21.2
All other guarantees	74.8	68.4	62.7
Total	31.8	35.6	42.4
Credit:			
Delinquency rate:			
Credit-enhanced loans, at period end	0.11%	0.36%	0.52%
Non-credit-enhanced loans, at period end	0.07%	0.10%	0.11%
Total delinquency rate, at period end[5]	0.09%	0.19%	0.22%
Allowance for loan losses and reserve for guarantee losses, at period end	$151	$382	$545
Credit losses, in bps[6]	0.9	2.8	6.3
REO inventory, at net carrying value	$10	$64	$133

REO inventory, at period end (number of properties)	1	6	20

(1) For reconciliations of Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see "NOTE 13: SEGMENT REPORTING — Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."
(2) Represents loan purchases and issuances of other guarantee commitments and Other Structured Securities. Excludes Other Guarantee Transactions.
(3) Represents subordinated securities (i.e., CMBS), which are not issued or guaranteed by us.
(4) Represents Multifamily Segment Earnings — management and guarantee income, excluding prepayment and certain other fees for each category, divided by the sum of the average UPB of the related category of guarantee. The average UPB of the all other guarantees category includes the average UPB associated with HFA initiative-related guarantees, excluding certain bonds under the NIBP.

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(5) See "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Multifamily Mortgage Credit Risk" for information on our reported multifamily delinquency rate.

(6) Calculated as the amount of multifamily credit losses (gains) divided by the sum of the average carrying value of our multifamily loans (on-balance sheet) and the average balance of the multifamily guarantee portfolio, including multifamily HFA initiative-related guarantees.

Segment Earnings for our Multifamily segment was $2.4 billion in 2013, compared to $2.1 billion in 2012 and $1.3 billion in 2011. The increase in 2013 was primarily due to increased non-interest income and increased benefit for credit losses, while the increase in 2012 was mainly due to increased non-interest income.

Comprehensive income for our Multifamily segment was $1.5 billion and $4.1 billion for 2013 and 2012, respectively, and consisted of: (a) Segment Earnings of $2.4 billion and $2.1 billion, respectively; and (b) $(0.9) billion and $1.9 billion of total other comprehensive income (loss), respectively. Total other comprehensive loss for our Multifamily segment in 2013 was primarily related to the realization of fair value gains in current period Segment Earnings that were previously deferred in AOCI associated with certain available-for-sale securities that were sold during 2013. Total other comprehensive income for our Multifamily segment in 2012 was mainly due to an increase in the fair value of available-for-sale CMBS, which was driven by favorable non-interest rate-related market spread movements.

In 2013, we continued to provide liquidity to the multifamily market and support affordable rental housing by acquiring and securitizing mortgages secured by nearly 1,600 properties amounting to nearly 388,000 rental units. Between 2009 and 2013, we sold $71.5 billion in UPB of multifamily loans through 56 K Certificate transactions, which represented approximately $61.0 billion in Other Guarantee Transactions that we issued and guaranteed, and $10.5 billion in unguaranteed private-label bonds (i.e., CMBS). The vast majority of the apartments we financed in 2013 were affordable to low and moderate income families.

We met the 2013 Conservatorship Scorecard goal of reducing our new multifamily business volume by at least 10% as compared to 2012 levels. As a result, our multifamily new business activity declined to $25.9 billion in 2013 compared to $28.8 billion for 2012. In addition to managing our new business volume, we experienced increased competition from other market participants and, as a result, we believe that our portion of new business in the multifamily market declined during 2013.

We sold $28.3 billion in UPB of multifamily loans in 2013 primarily through K Certificate transactions compared to $20.8 billion in 2012. The UPB of the total multifamily portfolio declined to $166.8 billion as of December 31, 2013 from $180.2 billion as of December 31, 2012, primarily due to the sale of available-for-sale CMBS related to our 2013 Conservatorship Scorecard goal to sell 5% of less liquid mortgage-related assets, and liquidations of our multifamily loan portfolio and investment securities. This decline was partially offset by an increase in our multifamily guarantee portfolio resulting from our issuance of K Certificates.

While we had a record level of Multifamily Segment Earnings in 2013, this is not sustainable over the long-term. Our recent financial results have benefited significantly from the strength of the multifamily market in the last several years, gains on sales of mortgage loans from our securitization activity as well as gains on sales of CMBS investments. Consistent with the 2013 Conservatorship Scorecard, we had significant sales of our CMBS during 2013. These sales, combined with principal repayments on CMBS and unsecuritized mortgage loans, reduced the size of the Multifamily investments portfolio and resulted in a decline in our Segment Earnings net interest income in 2013. These and any other significant strategy changes, either from management, FHFA, or Treasury, could have an adverse impact on the future earnings of our Multifamily segment.

Segment Earnings net interest income was $1.2 billion in 2013 compared to $1.3 billion in 2012 and $1.2 billion in 2011. The decrease in 2013 was primarily due to lower average balances of the multifamily loan and investment securities portfolios. The increase in 2012 was primarily due to the cumulative effect of new business volumes since 2008, which have higher yields relative to allocated funding costs compared to pre-2008 volumes.

Segment Earnings non-interest income was $1.3 billion, $1.1 billion, and $0.2 billion in 2013, 2012 and 2011, respectively. The increase in 2013 compared to 2012 was primarily due to higher other non-interest income which resulted from increased gains on sale of $12.4 billion in UPB of available-for-sale CMBS discussed above. This increase was partially offset by a decrease in gains on mortgage loans due to less favorable non-interest rate-related market movements during 2013 compared to 2012. The increase in 2012 compared to 2011 was mainly due to: (a) higher gains on mortgage loans resulting from favorable non-interest rate-related market movements during 2012; and (b) lower impairments on available-for-sale securities compared to 2011, which reflects improvement in the performance of the underlying collateral.

Segment Earnings management and guarantee income increased to $206 million in 2013, compared to $151 million in 2012, and $127 million in 2011. The increase in both 2013 and 2012 was primarily due to the higher average balance of the multifamily guarantee portfolio, which was primarily due to increased issuances of K Certificates. However, the average total management and guarantee fee rate on our multifamily guarantee portfolio declined to 31.8 basis points in 2013 from 35.6 basis points in 2012 and 42.4 basis points in 2011. These declines primarily reflect the increased issuances of guaranteed K Certificates during recent periods, which have lower fees than our other multifamily guarantee activities as a result of our limited credit risk exposure due to the use of subordination.

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Segment Earnings benefit for credit losses was $218 million, $123 million and $196 million in 2013, 2012 and 2011 respectively. The continued recognition of benefit for credit losses was primarily due to an improvement in the expected performance of the underlying loans.

As a result of our prudent underwriting standards and practices, and the continued positive multifamily market fundamentals, the credit quality of the multifamily mortgage portfolio remains strong. Multifamily credit losses as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were 0.9 basis points, 2.8 basis points, and 6.3 basis points in 2013, 2012 and 2011, respectively. See "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Multifamily Mortgage Credit Risk" for further information about the credit performance of our multifamily mortgage portfolio.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The following discussion of our consolidated balance sheets should be read in conjunction with our consolidated financial statements, including the accompanying notes. Also, see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for information concerning certain significant accounting policies and estimates applied in determining our reported financial position.

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

Cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and other liquid assets discussed in "Investments in Securities — Non-Mortgage-Related Securities," are important to our cash flow and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. We use these assets to help manage recurring cash flows and meet our other cash management needs. We consider federal funds sold to be overnight unsecured trades executed with insured depository institutions that are members of the Federal Reserve System. Federal funds sold trades are not insured. Securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities.

The short-term assets on our consolidated balance sheets also include those related to our consolidated VIEs, which consisted primarily of restricted cash and cash equivalents and securities purchased under agreements to resell at December 31, 2013. These short-term assets related to our consolidated VIEs decreased by $18.2 billion from December 31, 2012 to December 31, 2013, primarily due to a decrease in the level of refinancing activity.

Excluding amounts related to our consolidated VIEs, we held $11.3 billion and $8.5 billion of cash and cash equivalents (including non-interest bearing deposits of $7.2 billion and $7.3 billion at the Federal Reserve Bank of New York), no federal funds sold, and $59.2 billion and $18.3 billion of securities purchased under agreements to resell at December 31, 2013 and 2012, respectively. The increase in these liquid assets at December 31, 2013 compared to December 31, 2012 was due in part to the concern that the U.S. would exhaust its borrowing authority under the statutory debt limit.

Excluding amounts related to our consolidated VIEs, we held on average $22.6 billion and $24.5 billion of cash and cash equivalents and $55.7 billion and $27.6 billion of federal funds sold and securities purchased under agreements to resell during the three and twelve months ended December 31, 2013, respectively. The larger average balance during the fourth quarter of 2013 of federal funds sold and securities purchased under agreements to resell was primarily due to our obligation to pay to Treasury the significant senior preferred stock dividend at the end of 2013.

For information regarding our liquidity management practices and policies, see "LIQUIDITY AND CAPITAL RESOURCES."

Investments in Securities

The two tables below provide detail regarding our investments in securities as of December 31, 2013, 2012, and 2011. The tables do not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see "Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios."

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Table 20 — Investments in Available-For-Sale Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
December 31, 2013				
Available-for-sale mortgage-related securities:				
Freddie Mac	$39,001	$1,847	$(189)	$40,659
Fannie Mae	10,140	660	(3)	10,797
Ginnie Mae	149	18	—	167
CMBS	29,151	1,524	(337)	30,338
Subprime	29,897	382	(2,780)	27,499
Option ARM	6,617	338	(381)	6,574
Alt-A and other	8,322	526	(142)	8,706
Obligations of states and political subdivisions	3,533	23	(61)	3,495
Manufactured housing	629	61	(6)	684
Total investments in available-for-sale mortgage-related securities	$127,439	$5,379	$(3,899)	$128,919
December 31, 2012				
Available-for-sale mortgage-related securities:				
Freddie Mac	$53,965	$4,602	$(52)	$58,515
Fannie Mae	14,183	1,099	(2)	15,280
Ginnie Mae	183	26	—	209
CMBS	47,606	3,882	(181)	51,307
Subprime	35,503	83	(9,129)	26,457
Option ARM	7,454	48	(1,785)	5,717
Alt-A and other	11,861	244	(1,201)	10,904
Obligations of states and political subdivisions	5,647	154	(3)	5,798
Manufactured housing	716	24	(31)	709
Total investments in available-for-sale mortgage-related securities	$177,118	$10,162	$(12,384)	$174,896
December 31, 2011				
Available-for-sale mortgage-related securities:				
Freddie Mac	$74,711	$6,429	$(48)	$81,092
Fannie Mae	19,023	1,303	(4)	20,322
Ginnie Mae	219	30	—	249
CMBS	53,637	2,574	(548)	55,663
Subprime	41,347	60	(13,408)	27,999
Option ARM	9,019	15	(3,169)	5,865
Alt-A and other	13,659	32	(2,812)	10,879
Obligations of states and political subdivisions	7,782	108	(66)	7,824
Manufactured housing	820	6	(60)	766
Total investments in available-for-sale mortgage-related securities	$220,217	$10,557	$(20,115)	$210,659

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Table 21 — Investments in Trading Securities

	December 31, 2013	2012	2011
	(in millions)		
Trading mortgage-related securities:			
Freddie Mac	$9,349	$10,354	$16,047
Fannie Mae	7,180	10,338	15,165
Ginnie Mae	98	131	156
Other	141	156	164
Total trading mortgage-related securities	16,768	20,979	31,532
Trading non-mortgage-related securities:			
Asset-backed securities	—	292	302
Treasury bills	2,254	1,160	100
Treasury notes	4,382	19,061	24,712
FDIC-guaranteed corporate medium-term notes	—	—	2,184
Total trading non-mortgage-related securities	6,636	20,513	27,298
Total fair value of investments in trading securities	$23,404	$41,492	$58,830

Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities provide an additional source of liquidity. We held investments in non-mortgage-related securities with a fair value of $6.6 billion and $20.5 billion as of December 31, 2013 and 2012, respectively. While our investments in non-mortgage-related securities declined at December 31, 2013 compared to December 31, 2012, our other liquid assets increased. For more information on liquid assets, see "Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell."

Mortgage-Related Securities

Our investments in mortgage-related securities consist of securities issued by Fannie Mae, Ginnie Mae, and other financial institutions. We also invest in our own mortgage-related securities. However, the single-family PCs and certain Other Guarantee Transactions we purchase as investments are not accounted for as investments in securities on our consolidated balance sheets because we recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts.

The table below provides the UPB of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets. The table below does not include our holdings of our own single-family PCs and certain Other Guarantee Transactions. For further information on our holdings of such securities, see "Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios."

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Table 22 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2013			December 31, 2012		
	Fixed Rate	Variable Rate[1]	Total	Fixed Rate	Variable Rate[1]	Total
	(in millions)					
Freddie Mac mortgage-related securities:[2]						
Single-family	$38,472	$4,401	$42,873	$50,979	$7,256	$58,235
Multifamily	1,318	1,469	2,787	750	1,632	2,382
Total Freddie Mac mortgage-related securities	39,790	5,870	45,660	51,729	8,888	60,617
Non-Freddie Mac mortgage-related securities:						
Agency securities:[3]						
Fannie Mae:						
Single-family	7,240	9,421	16,661	10,864	12,518	23,382
Multifamily	3	—	3	35	49	84
Ginnie Mae:						
Single-family	150	78	228	202	91	293
Multifamily	15	—	15	15	—	15
Total Non-Freddie Mac agency securities	7,408	9,499	16,907	11,116	12,658	23,774
Non-agency mortgage-related securities:						
Single-family:[4]						
Subprime	116	39,583	39,699	311	44,086	44,397
Option ARM	—	10,426	10,426	—	12,012	12,012
Alt-A and other	1,417	9,594	11,011	1,774	13,036	14,810
CMBS	13,069	16,254	29,323	17,657	30,300	47,957
Obligations of states and political subdivisions[5]	3,524	14	3,538	5,637	19	5,656
Manufactured housing	577	201	778	741	121	862
Total non-agency mortgage-related securities[6]	18,703	76,072	94,775	26,120	99,574	125,694
Total UPB of mortgage-related securities	$65,901	$91,441	157,342	$88,965	$121,120	210,085
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(14,036)			(13,922)
Net unrealized gains (losses) on mortgage-related securities, pre-tax			2,381			(288)
Total carrying value of mortgage-related securities			$145,687			$195,875

(1) Variable-rate mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral.

(2) When we purchase REMICs and Other Structured Securities and certain Other Guarantee Transactions that we have issued, we account for these securities as investments in debt securities as we are investing in the debt securities of a non-consolidated entity. We do not consolidate our resecuritization trusts unless we are deemed to be the primary beneficiary of such trusts. We are subject to the credit risk associated with the mortgage loans underlying our Freddie Mac mortgage-related securities. Mortgage loans underlying our issued single-family PCs and certain Other Guarantee Transactions are recognized on our consolidated balance sheets as held-for-investment mortgage loans, at amortized cost. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Investments in Securities" for further information.

(3) Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(4) For information about how these securities are rated, see ‘‘Table 28 — Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.’’

(5) Consists of housing revenue bonds. Approximately 28% and 36% of these securities held at December 31, 2013 and 2012, respectively, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

(6) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 16% and 21% of total non-agency mortgage-related securities held at December 31, 2013 and 2012, respectively, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

The table below provides the UPB and fair value of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets.

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Table 23 — Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2013		December 31, 2012	
	UPB	Fair Value	UPB	Fair Value
	(in millions)			
Agency pass-through securities(1)	$12,951	$13,867	$17,614	$19,125
Other agency securities:				
Interest-only securities(2)	—	1,966	—	2,023
Principal-only securities(3)	2,724	2,252	2,291	2,169
Inverse floating-rate securities(4)	1,594	2,280	2,804	4,106
Other Structured Securities(5)	45,298	47,885	61,682	67,404
Total agency securities	62,567	68,250	84,391	94,827
Non-agency securities(6)	94,775	77,437	125,694	101,048
Total mortgage-related securities	$157,342	$145,687	$210,085	$195,875

(1) Represents an undivided beneficial interest in trusts that hold pools of mortgages.
(2) Represents securities where the holder receives only the interest cash flows. Includes $0.6 billion and $0.5 billion in fair value at December 31, 2013 and 2012, respectively, consisting of our K Certificates that we issued and guarantee in Other Guarantee Transactions.
(3) Represents securities where the holder receives only the principal cash flows.
(4) Represents securities where the holder receives interest cash flows that change inversely with the reference rate (i.e., higher cash flows when reference rates are low and lower cash flows when reference rates are high). Additionally, these securities receive a portion of principal cash flows associated with the underlying collateral.
(5) Includes REMICs and Other Structured Securities. See “GLOSSARY” for more information on these securities.
(6) Includes fair values of $2 million and $3 million of interest-only securities at December 31, 2013 and 2012, respectively.

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from $210.1 billion at December 31, 2012 to $157.3 billion at December 31, 2013, while the fair value of these investments decreased from $195.9 billion at December 31, 2012 to $145.7 billion at December 31, 2013. The reduction in UPB of agency mortgage-related securities primarily resulted from liquidations. The reduction in non-agency mortgage-related securities is due to the receipt of principal repayments from both the recoveries from liquidated loans and voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities, and sales, consistent with our efforts to reduce the size of our mortgage-related investments portfolio, as described in “BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

The table below summarizes our mortgage-related securities purchase activity for 2013, 2012, and 2011.

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Table 24 — Mortgage-Related Securities Purchase Activity[1]

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Non-Freddie Mac mortgage-related securities purchased for resecuritization:[2]			
Ginnie Mae Certificates	$26	$21	$77
Non-Freddie Mac mortgage-related securities purchased as investments in securities:			
Agency securities:			
Fannie Mae:			
Fixed-rate	4,251	—	5,835
Variable-rate	50	170	2,297
Total agency securities	4,301	170	8,132
Non-agency mortgage-related securities:			
CMBS:[3]			
Fixed-rate	30	10	14
Variable-rate	65	69	179
Total non-agency mortgage-related securities	95	79	193
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	4,396	249	8,325
Total non-Freddie Mac mortgage-related securities purchased	$4,422	$270	$8,402
Freddie Mac mortgage-related securities purchased:			
Single-family:			
Fixed-rate	$94,608	$49,607	$94,543
Variable-rate	885	3,542	5,057
Multifamily:			
Fixed-rate	—	119	355
Variable-rate	—	—	117
Total Freddie Mac mortgage-related securities purchased	$95,493	$53,268	$100,072
Mortgage-related securities purchased for Other Guarantee Transactions[4]	$23,696	$17,908	$11,527

(1) Based on UPB. Excludes mortgage-related securities traded but not yet settled.
(2) Excludes tax-exempt multifamily housing revenue bonds for securitization in guarantee swap transactions.
(3) Consists of our purchases of subordinated tranches issued in K Certificate transactions.
(4) Primarily consists of purchases of mortgage-related securities backed by Freddie Mac underwritten loans for the subsequent issuances of multifamily K Certificates.

The purchases of Freddie Mac mortgage-related securities that we made during 2013, as reflected in the table above, primarily consisted of purchases of single-family PCs related to our investment activities. Our purchases of single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated are recorded as an extinguishment of debt securities of consolidated trusts held by third parties on our consolidated balance sheets. For more information, see "BUSINESS — Our Business Segments — Investments Segment — Market Presence and PC Support Activities" and "RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates."

Unrealized Losses on Available-For-Sale Mortgage-Related Securities

At December 31, 2013, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $3.9 billion, compared to $12.4 billion at December 31, 2012. The decrease was largely the result of fair value gains related to our investments in single-family non-agency mortgage-related securities, primarily due to the impact of spread tightening and the movement of these securities with unrealized losses towards maturity. We believe the unrealized losses related to these securities at December 31, 2013 were mainly attributable to poor underlying collateral performance, limited liquidity and risk premiums in the market for residential non-agency mortgage-related securities. All available-for-sale securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See “Total Equity (Deficit)” and “NOTE 7: INVESTMENTS IN SECURITIES” for additional information regarding unrealized losses on our available-for-sale securities.

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

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

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

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

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

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

Table 25 — Non-Agency Mortgage-Related Securities Backed by Subprime First Lien, Option ARM, and Alt-A Loans and Certain Related Credit Statistics[1]

	As of 12/31/2013	9/30/2013	6/30/2013	3/31/2013	12/31/2012
	(dollars in millions)				
UPB:					
Subprime first lien[2]	$39,417	$40,491	$41,608	$42,998	$44,066
Option ARM	10,426	10,755	11,190	11,617	12,012
Alt-A[3]	9,147	9,866	11,118	12,243	12,634
Gross unrealized losses, pre-tax:[4]					
Subprime first lien[2]	$2,779	$4,666	$5,281	$6,085	$9,128
Option ARM	381	619	635	1,226	1,785
Alt-A[3]	135	304	579	781	1,093
Present value of expected future credit losses:[5]					
Subprime first lien [2]	$6,299	$3,575	$4,047	$6,195	$7,159
Option ARM	1,802	1,683	2,094	2,896	3,542
Alt-A [3]	1,165	1,149	1,338	1,450	1,739
Collateral delinquency rate:[6]					
Subprime first lien[2]	35 %	36 %	37 %	38 %	39 %
Option ARM	32	33	34	36	38
Alt-A[3]	22	22	22	22	23
Average credit enhancement:[7]					
Subprime first lien[2]	9 %	10 %	12 %	14 %	15 %
Option ARM	—	—	1	2	3
Alt-A[3]	—	1	3	4	4
Cumulative collateral loss:[8]					
Subprime first lien[2]	30 %	29 %	29 %	27 %	26 %
Option ARM	24	24	23	22	21
Alt-A[3]	13	13	12	11	10

(1) See "Ratings of Non-Agency Mortgage-Related Securities" for additional information about these securities. The book and fair values of our mortgage-related securities and the information in this table were not affected by the settlement amounts we received in 2013 related to our investments in certain non-agency mortgage-related securities. For more information, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

(2)

Excludes non-agency mortgage-related securities backed exclusively by subprime second liens. Certain securities identified as subprime first lien may be backed in part by subprime second-lien loans, as the pools of loans underlying these securities were permitted to include a small percentage of subprime second-lien loans.

(3) Excludes non-agency mortgage-related securities backed by other loans, which primarily consist of securities backed by home equity lines of credit.

(4) Represents the aggregate of the amount by which amortized cost, after other-than-temporary impairments, exceeds fair value measured at the individual lot level.

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

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

(7) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own, divided by (b) the

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total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated securities; excludes credit enhancement provided by bond insurance.

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

For purposes of our cumulative credit deterioration analysis, our estimate of the present value of expected future credit losses on our available-for-sale non-agency mortgage-related securities decreased to $9.7 billion at December 31, 2013 from $13.2 billion at December 31, 2012. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses was primarily driven by: (a) improvements in forecasted home prices over the expected life of our available-for-sale securities; and (b) realized cash shortfalls. The decrease in the present value of expected future credit losses was offset by the incorporation in the fourth quarter of 2013 of new information, which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market. This enhancement resulted in a lower net present value of projected cash flows on our non-agency mortgage-related securities and increased our net other-than-temporary impairments recognized in earnings by $0.7 billion.

The investments in non-agency mortgage-related securities we hold backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in the aggregate. During 2013, we continued to experience the erosion of structural credit enhancements on many securities backed by subprime, option ARM, and Alt-A loans due to poor performance of the underlying collateral. As of December 31, 2013, on an average basis, the structural credit enhancements on our securities backed by option ARM and certain Alt-A loans have been more than fully depleted. We have also determined that there is substantial uncertainty surrounding certain bond insurers' ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments. For more information, see "Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities." For more information on bond insurance coverage, see "RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Bond Insurers."

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $3.7 billion on impaired available-for-sale non-agency mortgage-related securities, including $152 million and $955 million related to the three and twelve months ended December 31, 2013, respectively. Many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures.

The table below provides principal repayment and cash shortfall information for our investments in non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans.

Table 26 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans[1]

	Three Months Ended				
	12/31/2013	9/30/2013	6/30/2013	3/31/2013	12/31/2012
	(in millions)				
Principal repayments and cash shortfalls:[2]					
Subprime:					
Principal repayments	$1,021	$1,048	$1,087	$1,065	$1,106
Principal cash shortfalls	8	35	15	14	7
Option ARM:					
Principal repayments	$192	$226	$239	$217	$239
Principal cash shortfalls	100	161	188	178	226

Alt-A and other:					
Principal repayments	$324	$418	$418	$385	$423
Principal cash shortfalls	43	51	74	84	81

(1) See "Ratings of Non-Agency Mortgage-Related Securities" for additional information about these securities. The book and fair values of our mortgage-related securities and the information in this table were not affected by the settlement amounts we received in 2013 related to our investments in certain non-agency mortgage-related securities. For more information, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

(2) In addition to the contractual interest payments, we receive principal repayments from both the recoveries from liquidated loans and voluntary repayments of the underlying collateral of these securities representing a partial return of our investment in these securities.

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We and FHFA, as Conservator, are involved in various efforts to mitigate or recover our losses as an investor with respect to certain of the non-agency mortgage-related securities we hold. See "RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Agency and Non-Agency Mortgage-Related Security Issuers" for more information.

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

The table below provides information about the mortgage-related securities for which we recognized other-than-temporary impairments in earnings, consisting entirely of non-agency mortgage-related securities.

Table 27 — Net Impairment of Available-For-Sale Mortgage-Related Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings				
	Three Months Ended				
	12/31/2013	9/30/2013	6/30/2013	3/31/2013	12/31/2012
	(in millions)				
Subprime:[1]					
2006 & 2007	$1,141	$4	$12	$27	$591
Other years	26	41	1	6	24
Total subprime	1,167	45	13	33	615
Option ARM:					
2006 & 2007	26	1	4	—	306
Other years	15	11	1	—	122
Total option ARM	41	12	5	—	428
Alt-A:					
2006 & 2007	4	1	1	—	37
Other years	54	64	24	—	100
Total Alt-A	58	65	25	—	137
Other loans	30	1	—	—	—
Total subprime, option ARM, Alt-A and other loans	1,296	123	43	33	1,180
CMBS	1	3	—	10	58
Manufactured housing	—	—	1	—	1
Total available-for-sale mortgage-related securities	$1,297	$126	$44	$43	$1,239

(1) Includes all first and second liens.

We recorded net impairment of available-for-sale securities recognized in earnings of $1.3 billion and $1.5 billion during the three and twelve months ended December 31, 2013, respectively, compared to $1.2 billion and $2.2 billion during the three and twelve months ended December 31, 2012, respectively.

We review our investments in available-for-sale securities that are in an unrealized loss position to determine which securities, if any, we intend to sell, given market conditions and other information as of the balance sheet date. For any available-for-sale security for which we concluded we had the intent to sell as of December 31, 2013, we recorded the unrealized loss as a net impairment of available-for-sale securities recognized in earnings. The intent to sell population is determined using management judgment based on a variety of factors, including economics and other considerations and, in the case of single-family non-agency mortgage-related securities, whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. During the three and twelve months ended December 31, 2013, we recorded net impairment of available-for-sale securities recognized in earnings of $434 million and $568 million, respectively, due to our intent to sell certain securities. We recorded the remaining impairments because our estimate of the present value of expected future credit losses on certain individual available-for-sale securities increased during the period. The securities that we have the intent to sell are based on our current operational plans, models and strategies. If there is a change in our operational plans, models or strategies, it could change the population of securities we intend to sell and thereby have a potentially significant impact on earnings. For more

information, including information regarding model changes or enhancements related to impairments implemented in the fourth quarters of 2013 and 2012, see "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — Investment Securities-Related Activities" and “NOTE 7: INVESTMENTS IN SECURITIES — Other-Than-Temporary Impairments on Available-for-Sale Securities.”
While it is reasonably possible that collateral losses on our available-for-sale securities where we have not recorded an impairment charge in earnings could exceed our credit enhancement levels, we do not believe that those conditions were likely at December 31, 2013. Based on our conclusion that we do not intend to sell our remaining available-for-sale securities that are in an unrealized loss position (other than those securities noted above) and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses and our consideration of other available information, we have concluded that the reduction in fair value of these securities was temporary at December 31, 2013 and have recorded these unrealized losses in AOCI.

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

Our assessments concerning other-than-temporary impairment require significant judgment and the use of models, and are subject to potentially significant change as conditions evolve. In addition, changes in the performance of the individual securities and in mortgage market conditions may also affect our impairment assessments. Depending on the structure of the individual mortgage-related security and our estimate of collateral losses relative to the amount of credit support expected to be available for the tranches we own, a change in collateral loss estimates can have a disproportionate impact on the loss estimate for the security. Additionally, servicer performance, loan modification programs and backlogs, and various forms of government intervention in the housing market can significantly affect the performance of these securities, including the timing of loss recognition of the underlying loans and thus the timing of losses we recognize on our securities. Impacts related to changes in interest rates may also affect our losses due to the structural credit enhancements on our investments in non-agency mortgage-related securities. The lengthening of the foreclosure timelines that has occurred in recent years can also affect our losses. For example, while defaulted loans remain in the trusts prior to completion of the foreclosure process, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments, rather than absorbing default losses. This may reduce the amount of funds available for the tranches we own. Given the uncertainty of the housing and economic environment, it is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future principal cash shortfalls.

For more information on risks associated with the use of models, see “RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.”

Ratings of Non-Agency Mortgage-Related Securities

The table below shows the ratings of non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans, and CMBS held at December 31, 2013 based on their ratings as of December 31, 2013, as well as those held at December 31, 2012 based on their ratings as of December 31, 2012. Ratings presented represent the lower of S&P, Fitch and Moody's credit ratings, with Fitch and Moody's stated in terms of the S&P equivalent.

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Table 28 — Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of December 31, 2013	UPB	Percentage of UPB	Amortized Cost	Gross Unrealized Losses	Bond Insurance Coverage[1]
	(dollars in millions)				
Subprime loans:					
AAA-rated	$88	— %	$85	$(1)	$2
Other investment grade	1,829	5	1,758	(31)	355
Below investment grade[2]	37,782	95	28,054	(2,748)	1,315
Total	$39,699	100 %	$29,897	$(2,780)	$1,672
Option ARM loans:					
AAA-rated	$—	— %	$—	$—	$—
Other investment grade	24	—	23	(1)	17
Below investment grade[2]	10,402	100	6,594	(380)	8
Total	$10,426	100 %	$6,617	$(381)	$25
Alt-A and other loans:					
AAA-rated	$26	— %	$25	$—	$5
Other investment grade	564	5	527	(7)	210
Below investment grade[2]	10,421	95	7,772	(135)	1,613
Total	$11,011	100 %	$8,324	$(142)	$1,828
CMBS:					
AAA-rated	$14,286	49 %	$14,299	$—	$41
Other investment grade	12,786	43	12,740	(131)	1,653
Below investment grade[2]	2,251	8	2,239	(206)	1,557
Total	$29,323	100 %	$29,278	$(337)	$3,251
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$14,400	16 %	$14,409	$(1)	$48
Other investment grade	15,203	17	15,048	(170)	2,235
Below investment grade[2]	60,856	67	44,659	(3,469)	4,493
Total	$90,459	100 %	$74,116	$(3,640)	$6,776
Total investments in mortgage-related securities	$157,342				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	57 %				
Credit Ratings as of December 31, 2012					
Subprime loans:					
AAA-rated	$263	1 %	$263	$(20)	$13
Other investment grade	2,033	4	1,988	(112)	371
Below investment grade[2]	42,101	95	33,252	(8,997)	1,474
Total	$44,397	100 %	$35,503	$(9,129)	$1,858
Option ARM loans:					
AAA-rated	$—	— %	$—	$—	$—
Other investment grade	40	—	40	(4)	32
Below investment grade[2]	11,972	100	7,414	(1,781)	12
Total	$12,012	100 %	$7,454	$(1,785)	$44

Alt-A and other loans:					
AAA-rated	$48	— %	$48	$(2)	$6
Other investment grade	1,272	9	1,283	(120)	261
Below investment grade(2)	13,490	91	10,532	(1,079)	1,862
Total	$14,810	100 %	$11,863	$(1,201)	$2,129
CMBS:					
AAA-rated	$24,646	51 %	$24,676	$(4)	$41
Other investment grade	20,615	43	20,568	(87)	1,698
Below investment grade(2)	2,696	6	2,490	(90)	1,568
Total	$47,957	100 %	$47,734	$(181)	$3,307
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$24,957	21 %	$24,987	$(26)	$60
Other investment grade	23,960	20	23,879	(323)	2,362
Below investment grade(2)	70,259	59	53,688	(11,947)	4,916
Total	$119,176	100 %	$102,554	$(12,296)	$7,338
Total investments in mortgage-related securities	$210,085				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	57 %				

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(1) Represents the amount of UPB covered by bond insurance. This amount does not represent the maximum amount of losses we could recover, as the bond insurance also covers interest.

(2) Includes securities with S&P equivalent credit ratings below BBB– and certain securities that are no longer rated.

Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheets was $1.7 trillion at both December 31, 2013 and 2012. Most of the loans on our consolidated balance sheets are securitized (e.g., held in PC trusts). The unsecuritized loans on our consolidated balance sheets generally consist of loans held for investment purposes, loans that are awaiting securitization, or delinquent or modified loans that we removed from PC trusts.

Based on the amount of the recorded investment of single-family loans on our consolidated balance sheets, approximately $41.5 billion, or 2.5%, of these loans were seriously delinquent or in foreclosure as of December 31, 2013, compared to $59.8 billion, or 3.6%, as of December 31, 2012. The majority of these loans are unsecuritized, and were removed by us from our PC trusts. As guarantor, we have the right to remove mortgages that back our PCs from the underlying loan pools under certain circumstances. See "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS" for more information on our removal of single-family loans from PC trusts.

The UPB of unsecuritized single-family mortgage loans declined by $22.6 billion to $122.1 billion at December 31, 2013 from $144.7 billion at December 31, 2012, primarily due to: (a) loan prepayments, foreclosure transfers, and foreclosure alternative activities; and (b) securitization of loans through our PC cash auction process, net of related purchases. This decline was partially offset by our removal of seriously delinquent single-family loans from PC trusts. As of December 31, 2013 and 2012, the balance of unsecuritized single-family mortgage loans included $78.0 billion and $65.8 billion, respectively, in UPB of mortgage loans classified as TDRs that were no longer seriously delinquent.

The UPB of unsecuritized multifamily mortgage loans was $59.2 billion at December 31, 2013 and $76.6 billion at December 31, 2012. This decline was primarily due to principal repayments as well as our securitization of loans through K Certificates, which exceeded new purchases of loans for securitization.

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. We also maintain a reserve for guarantee losses that is associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments for which we have incremental credit risk. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. Our loan loss reserves were $24.7 billion and $30.9 billion at December 31, 2013 and 2012, respectively, including $24.6 billion and $30.5 billion, respectively, related to single-family loans. At December 31, 2013 and 2012, our loan loss reserves, as a percentage of our total mortgage portfolio, excluding non-Freddie Mac securities, were 1.4% and 1.7%, respectively, and as a percentage of the UPB associated with our non-performing loans were 20.0% and 23.5%, respectively. See "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk" and "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for information on seriously delinquent single-family loans as well as further detail about the mortgage loans and associated allowance for loan losses recorded on our consolidated balance sheets.

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

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Table 29 — Mortgage Loan Purchases and Other Guarantee Commitment Issuances[1]

	Year Ended December 31,					
	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in millions)					
Mortgage loan purchases and guarantee issuances:						
Single-family:						
30-year or more amortizing fixed-rate	$287,773	63 %	$275,632	60 %	$194,746	57 %
20-year amortizing fixed-rate	21,658	5	29,614	7	21,378	6
15-year amortizing fixed-rate	97,025	22	103,141	23	78,543	23
Adjustable-rate[2]	16,007	4	18,075	4	25,685	8
FHA/VA and other governmental	279	<1	387	<1	441	<1
Total single-family[3]	422,742	94	426,849	94	320,793	94
Multifamily[4]	25,872	6	28,774	6	20,325	6
Total mortgage loan purchases and other guarantee commitment issuances[5]	$448,614	100 %	$455,623	100 %	$341,118	100 %
Percentage of mortgage purchases and other guarantee commitment issuances with credit enhancements[6]	16 %		12 %		8 %	

(1) Based on principal amount of the loans. Excludes mortgage loans traded but not yet settled. Excludes the removal of seriously delinquent loans and balloon/reset mortgages from PC trusts.

(2) Includes amortizing ARMs with 1-, 3-, 5-, 7-, and 10-year initial fixed-rate periods. We have not purchased option ARM loans in our single-family credit guarantee portfolio since 2007.

(3) Includes $29.0 billion, $32.6 billion, and $27.7 billion of conforming jumbo loan purchases and $1.0 billion, $0.9 billion, and $0.5 billion of conforming jumbo loans underlying other guarantee commitment issuances for the years ended December 31, 2013, 2012, and 2011, respectively.

(4) Includes other guarantee commitments associated with mortgage loans as well as tax-exempt multifamily assets. See endnote (5) for further information.

(5) Includes issuances of other guarantee commitments on single-family loans of $9.9 billion, $6.8 billion, and $4.4 billion and issuances of other guarantee commitments on multifamily loans of $0.7 billion, $2.4 billion, and $1.0 billion during the years ended December 31, 2013, 2012, and 2011, respectively.

(6) Excludes credit enhancement coverage occurring subsequent to our purchase or guarantee, such as through STACR debt notes or other risk transfer transactions. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Protection and Other Forms of Credit Enhancement" for further details on credit enhancement of mortgage loans in our multifamily mortgage and single-family credit guarantee portfolios.

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

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of purchases and terminations of derivatives, assignments of derivatives prior to their contractual maturity, and expiration of derivatives at their contractual maturity. See "NOTE 9: DERIVATIVES" for additional information regarding our derivatives and "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged" for more information about collateral held and posted.

The table below shows the fair value for each derivative type, the weighted average fixed rate of our pay-fixed and receive-fixed swaps, and the maturity profile of our derivative positions reconciled to the amounts presented on our consolidated balance sheets as of December 31, 2013. A positive fair value in the table below for each derivative type is the estimated amount, prior to netting where allowable, that we would be entitled to receive at that date if the derivatives of that type were terminated. A negative fair value for a derivative type is the estimated amount, prior to netting where allowable, that we would owe at that date if the derivatives of that type were terminated.

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Table 30 — Derivative Fair Values and Maturities

	December 31, 2013					
	Notional or Contractual Amount[2]	Total Fair Value	Fair Value[1] Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
	(dollars in millions)					
Interest-rate swaps:						
Receive-fixed:						
Swaps	$262,566	$2,206	$171	$660	$1,265	$110
Weighted average fixed rate[3]			1.04%	0.97%	1.66%	2.91%
Forward-starting swaps[4]	19,161	(169)	—	—	49	(218)
Weighted average fixed rate[3]			—%	—%	1.88%	3.58%
Total receive-fixed	281,727	2,037	171	660	1,314	(108)
Basis (floating to floating)	300	4	—	4	—	—
Pay-fixed:						
Swaps	235,097	(5,009)	(61)	(1,878)	(2,667)	(403)
Weighted average fixed rate[3]			1.90%	2.28%	3.14%	3.17%
Forward-starting swaps[4]	7,500	(330)	—	—	—	(330)
Weighted average fixed rate[3]			—%	—%	—%	3.75%
Total pay-fixed	242,597	(5,339)	(61)	(1,878)	(2,667)	(733)
Total interest-rate swaps	524,624	(3,298)	110	(1,214)	(1,353)	(841)
Option-based:						
Call swaptions						
Purchased	59,290	2,373	1,553	88	449	283
Written	5,945	(201)	(153)	(48)	—	—
Put swaptions						
Purchased	33,410	698	165	115	79	339
Other option-based derivatives[5]	23,365	1,038	—	—	—	1,038
Total option-based	122,010	3,908	1,565	155	528	1,660
Futures	50,270	—	—	—	—	—
Foreign-currency swaps	528	39	39	—	—	—
Commitments	18,731	(8)	(8)	—	—	—
Swap guarantee derivatives	3,477	(31)	—	(1)	(3)	(27)
Subtotal	719,640	610	$1,706	$(1,060)	$(828)	$792
Credit derivatives	5,386	(6)				
Subtotal	725,026	604				
Derivative interest receivable (payable), net		(592)				
Derivative cash collateral (held) posted, net		871				
Total	$725,026	$883				

(1) Fair value is categorized by maturity based on the period from December 31, 2013 until the contractual maturity of the derivative.

(2) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.

(3) Represents the notional weighted average rate for the fixed leg of the swaps.

(4) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to twelve years as of December 31, 2013.
(5) Primarily includes purchased interest-rate caps and floors.

At December 31, 2013, the net fair value of our total derivative portfolio was $883 million, as compared to $479 million at December 31, 2012. The derivative portfolio notional amount decreased to $725 billion at December 31, 2013 compared to $746 billion at December 31, 2012. During 2013, we changed the mix and balance of products in our derivative portfolio in response to an increase in longer-term interest rates. See "NOTE 9: DERIVATIVES" for the notional or contractual amounts and related fair values of our total derivative portfolio by product type at December 31, 2013 and 2012, as well as "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged" for information about derivative collateral held and posted.
See "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — Derivative Gains (Losses)" for a description of gains (losses) on our derivative positions.

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REO, Net

We acquire properties, which are recorded as REO assets on our consolidated balance sheets, typically as a result of borrower defaults (and subsequent foreclosures) on mortgage loans that we own or guarantee. The balance of our REO, net, was $4.6 billion at December 31, 2013 and $4.4 billion at December 31, 2012, despite a 4% decline in our REO inventory, due to the positive impact of improvements in home prices in most geographical areas during 2013. During 2013, we increased our pricing of single-family properties at single-family foreclosure sale, resulting in fewer third-party buyers of these properties at the time of foreclosure and a higher level of our single-family REO acquisitions than there otherwise would have been. In addition, the volume of our single-family REO acquisitions in recent periods has been significantly affected by: (a) the length of the foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying properties to transition to REO; and (b) a high volume of foreclosure alternatives, which result in fewer loans proceeding to foreclosure, and thus fewer properties transitioning to REO. We expect that the length of the foreclosure process will continue to remain above historical levels and may increase further. Additionally, we expect our REO activity to remain at elevated levels, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. See “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Non-Performing Assets” for additional information about our REO activity.

Deferred Tax Assets and Liabilities

We had a net deferred tax asset of $22.7 billion as of December 31, 2013 compared to a net deferred tax asset of $778 million as of December 31, 2012. During 2013, the change in our net deferred tax asset of $21.9 billion was primarily due to the release of the valuation allowance. See "NOTE 12: INCOME TAXES" for additional information.

As discussed below, after weighing all of the evidence at September 30, 2013, we determined that the positive evidence relating to the realizability of our deferred tax assets, particularly the evidence that was objectively verifiable, outweighed the negative evidence. Accordingly, we concluded that it is more likely than not that our deferred tax assets will be realized and we released the valuation allowance against our net deferred tax assets.

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. In conducting our assessment at September 30, 2013, we evaluated all available objective evidence including, but not limited to: (a) our three-year cumulative income position; (b) the trend of our financial and tax results; (c) the amount of taxable income reported in our 2012 federal tax return; (d) our tax net operating loss and tax credit carryforwards and the length of carryforward periods available to utilize these assets under current tax law; and (e) our access to capital under the agreements associated with conservatorship. Furthermore, we evaluated all available subjective evidence including, but not limited to: (a) difficulty in predicting unsettled circumstances related to the conservatorship; (b) the amount of our forecasted 2013 taxable income; and (c) forecasts of future book and tax income. Our consideration of the evidence requires significant judgment regarding estimates and assumptions that are inherently uncertain, particularly about our future business structure and financial results.

We are not permitted to consider the impacts proposed legislation may have on our business operations or the mortgage industry in our analysis because the timing and certainty of those actions are unknown and beyond our control.

The positive evidence at September 30, 2013, that outweighed the negative evidence included the following:

- Our three-year cumulative income position;
- The strong positive trend in our financial performance over six consecutive quarters;
- The 2012 taxable income reported in our federal tax return which was filed in 2013;
- Our forecasted 2013 and future period taxable income;
- Our net operating loss carryforwards do not begin to expire until 2030; and
- The continuing positive trend in the housing market.

When comparing evidence available for 2013 versus 2012, we noted a number of positive developments. During 2013, we filed our 2012 federal tax return, which reflected taxable income. This was our first year reporting taxable income since 2007. Furthermore, we continued an improved trend in earnings. Our current base forecast of taxable income also improved resulting in a decline in the number of years of projected income required in order to fully realize our net deferred tax asset. These positive developments in addition to the positive evidence discussed above resulted in our conclusion to release the valuation allowance against our net deferred tax assets at September 30, 2013. Given the continued positive trend in our financial performance through the fourth quarter, we determined that a valuation allowance against our net deferred tax asset was not necessary at December 31, 2013.

In future quarters we will continue to evaluate our ability to realize the net deferred tax asset. If evidence in future periods changes such that it is more likely than not that part or all of the net deferred tax asset will not be realized, we will reestablish a valuation allowance at that time. Examples of factors that could affect our assessment are: (a) a significant downturn in the housing markets or economy that negatively impacts our future financial results; (b) changes to our business

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operations resulting from enacted legislation; and (c) a change in corporate legal structure that would limit our ability to realize the assets under existing tax laws. If we determine that it is appropriate to establish a valuation allowance in the future, it would result in an additional income tax expense and might require additional draws under the Purchase Agreement.

Other Assets

Other assets consist of accounts and other receivables, the guarantee asset related to non-consolidated trusts and other guarantee commitments, and other miscellaneous assets. Other assets decreased to $8.5 billion as of December 31, 2013 from $13.8 billion as of December 31, 2012 primarily due to a decrease in servicer receivables resulting from a decrease in mortgage loans paid off by borrowers at the end of the period that had not yet been remitted to us. For more information on other assets, see "NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS."

Total Debt, Net

Total debt, net on our consolidated balance sheets consists of: (a) debt securities of consolidated trusts held by third parties; and (b) other debt.

- PCs and Other Guarantee Transactions issued by our consolidated trusts and held by third parties are recognized as debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Debt securities of consolidated trusts held by third parties represent our liability to third parties that hold beneficial interests in our consolidated trusts. The debt securities of our consolidated trusts may be prepaid at any time, as the loans that collateralize the debt may be prepaid without penalty at any time.
- Other debt consists of unsecured short-term and long-term debt securities we issue to third parties to fund our business activities. It is classified as either short-term or long-term based on the contractual maturity of the debt instrument. See "LIQUIDITY AND CAPITAL RESOURCES" for information about our other debt.

The table below reconciles the par value of other debt and the UPB of debt securities of consolidated trusts held by third parties to the amounts shown in our consolidated balance sheets.

Table 31 — Reconciliation of the Par Value and UPB to Total Debt, Net

	December 31, 2013	2012
	(in millions)	
Total debt:		
Other debt:		
Par value	$511,345	$552,472
Unamortized balance of discounts and premiums[1]	(4,667)	(5,031)
Hedging-related and other basis adjustments[2]	89	77
Subtotal	506,767	547,518
Debt securities of consolidated trusts held by third parties:		
UPB	1,399,456	1,387,259
Unamortized balance of discounts and premiums	34,528	32,265
Subtotal	1,433,984	1,419,524
Total debt, net	$1,940,751	$1,967,042

(1) Primarily represents unamortized discounts on zero-coupon debt.

(2) Primarily represents deferrals related to debt instruments that were in hedge accounting relationships, and changes in the fair value attributable to instrument-specific interest-rate and credit risk related to STACR debt notes (beginning in 2013) and foreign-currency denominated debt.

The table below summarizes our other short-term debt.

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Table 32 — Other Short-Term Debt

	2013						
	December 31,			Average Outstanding During the Year			Maximum Balance, Net Outstanding at Any Month End
	Balance, Net(1)	Weighted Average Effective Rate(2)		Balance, Net(3)	Weighted Average Effective Rate(4)		
	(dollars in millions)						
Reference Bills® securities and discount notes	$137,712	0.13	%	$130,919	0.13	%	$ 140,082
Medium-term notes	4,000	0.16		2,291	0.16		4,000
Federal funds purchased and securities sold under agreements to repurchase	—	—		15	0.16		—
Other short-term debt	$141,712	0.13					

	2012						
	December 31,			Average Outstanding During the Year			Maximum Balance, Net Outstanding at Any Month End
	Balance, Net(1)	Weighted Average Effective Rate(2)		Balance, Net(3)	Weighted Average Effective Rate(4)		
	(dollars in millions)						
Reference Bills® securities and discount notes	$117,889	0.15	%	$126,919	0.14	%	$ 155,285
Medium-term notes	—	—		21	0.44		250
Federal funds purchased and securities sold under agreements to repurchase	—	—		12	0.28		—
Other short-term debt	$117,889	0.15					

	2011						
	December 31,			Average Outstanding During the Year			Maximum Balance, Net Outstanding at Any Month End
	Balance, Net(1)	Weighted Average Effective Rate(2)		Balance, Net(3)	Weighted Average Effective Rate(4)		
	(dollars in millions)						
Reference Bills® securities and discount notes	$161,149	0.11	%	$181,209	0.17	%	$ 196,126
Medium-term notes	250	0.24		826	0.23		2,564
Federal funds purchased and securities sold under agreements to repurchase	—	—		13	0.16		—
Other short-term debt	$161,399	0.11					

(1) Represents par value, net of associated discounts and premiums, of which $0 billion, $0 billion, and $0.2 billion of short-term debt represents the fair value of debt securities with the fair value option elected at December 31, 2013,

2012, and 2011, respectively.

(2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs.

(3) Represents par value, net of associated discounts, premiums, and issuance costs. Issuance costs are reported in the other assets caption on our consolidated balance sheets.

(4) Represents the approximate weighted average effective rate during the period, which includes the amortization of discounts or premiums and issuance costs.

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

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Table 33 — Freddie Mac Mortgage-Related Securities[1]

	December 31, 2013			December 31, 2012		
	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
	(in millions)					
PCs and Other Structured Securities:						
Single-family:						
30-year or more amortizing fixed-rate	$1,040,602	$ —	$1,040,602	$1,039,439	$ —	$1,039,439
20-year amortizing fixed-rate	81,214	—	81,214	78,122	—	78,122
15-year amortizing fixed-rate	291,347	—	291,347	270,032	—	270,032
Adjustable-rate[2]	66,250	—	66,250	68,470	—	68,470
Interest-only[3]	29,083	—	29,083	41,275	—	41,275
FHA/VA and other governmental	3,366	—	3,366	3,084	—	3,084
Total single-family	1,511,862	—	1,511,862	1,500,422	—	1,500,422
Multifamily	—	4,778	4,778	—	4,224	4,224
Total single-family and multifamily	1,511,862	4,778	1,516,640	1,500,422	4,224	1,504,646
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family[4]	8,396	3,079	11,475	10,455	3,415	13,870
Multifamily	444	59,326	59,770	448	36,732	37,180
Total Non-HFA bonds	8,840	62,405	71,245	10,903	40,147	51,050
HFA Initiative Bonds:[5]						
Single-family	—	3,341	3,341	—	4,827	4,827
Multifamily	—	744	744	—	863	863
Total HFA Initiative Bonds	—	4,085	4,085	—	5,690	5,690
Total Other Guarantee Transactions	8,840	66,490	75,330	10,903	45,837	56,740
REMICs and Other Structured Securities backed by Ginnie Mae certificates[6]	—	541	541	—	654	654
Total Freddie Mac Mortgage-Related Securities	$1,520,702	$ 71,809	$1,592,511	$1,511,325	$ 50,715	$1,562,040
Less: Repurchased Freddie Mac Mortgage-Related Securities[7]	(121,246)			(124,066)		
Total UPB of debt securities of consolidated trusts held by third parties	$1,399,456			$1,387,259		

(1) Amounts are based on UPB of the securities and exclude mortgage-related securities traded, but not yet settled.

(2) Includes $0.9 billion and $1.0 billion in UPB of option ARM mortgage loans as of December 31, 2013 and 2012, respectively. See endnote (4) for additional information on option ARM loans that back our Other Guarantee Transactions.
(3) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(4) Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and also include $5.5 billion and $6.3 billion in UPB of securities backed by option ARM mortgage loans at December 31, 2013 and 2012, respectively.
(5) Consists of bonds we acquired and resecuritized under the NIBP.
(6) Backed by FHA/VA loans.
(7) Represents the UPB of repurchased Freddie Mac mortgage-related securities that are consolidated on our balance sheets and includes certain remittance amounts associated with our security trust administration that are payable to third-party mortgage-related security holders. Our holdings of non-consolidated Freddie Mac mortgage-related securities are presented in "Table 22 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets."

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust debt securities, based on UPB, was approximately 94% and 93% at December 31, 2013 and 2012, respectively. The UPB of multifamily Other Guarantee Transactions, excluding HFA initiative-related bonds, increased to $59.8 billion as of December 31, 2013 from $37.2 billion as of December 31, 2012, due to multifamily loan securitization activity related to K Certificate transactions.

The table below shows issuances and extinguishments of the debt securities of our consolidated trusts during 2013 and 2012, as well as the UPB of consolidated trusts held by third parties.

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Table 34 — Issuances and Extinguishments of Debt Securities of Consolidated Trusts[1]

	Year Ended December 31,	
	2013	2012
	(in millions)	
Beginning balance of debt securities of consolidated trusts held by third parties	$1,387,259	$1,452,476
Issuances to third parties of debt securities of consolidated trusts:		
Issuances based on underlying mortgage product type:		
30-year or more amortizing fixed-rate	290,568	284,381
20-year amortizing fixed-rate	21,985	31,142
15-year amortizing fixed-rate	96,498	105,603
Adjustable-rate	16,036	18,189
FHA/VA	532	—
Multifamily	—	448
Debt securities of consolidated trusts retained by us at issuance[2]	(38,390)	(36,317)
Net issuances of debt securities of consolidated trusts	387,229	403,446
Reissuances of debt securities of consolidated trusts previously held by us[3]	55,704	29,384
Total issuances to third parties of debt securities of consolidated trusts	442,933	432,830
Extinguishments, net[4]	(430,736)	(498,047)
Ending balance of debt securities of consolidated trusts held by third parties	$1,399,456	$1,387,259

(1) Based on UPB.

(2) Represents the UPB of mortgage loans that we had purchased for cash, subsequently securitized, and retained in our mortgage-related investments portfolio.

(3) Represents our sales of PCs and certain Other Guarantee Transactions previously held by us.

(4) Represents: (a) UPB of our purchases from third parties of PCs and Other Guarantee Transactions issued by our consolidated trusts; (b) principal repayments related to PCs and Other Guarantee Transactions issued by our consolidated trusts; and (c) certain remittance amounts associated with our trust security administration that are payable to third-party mortgage-related security holders as of December 31, 2013 and 2012.

Extinguishments, net decreased in 2013 primarily due to a decrease in refinance activity resulting from an increase in interest rates. Reissuances of debt securities of consolidated trusts previously held by us increased due to increased sales from the mortgage-related investments portfolio.

Other Liabilities

Other liabilities consist of servicer liabilities, the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities of $5.5 billion as of December 31, 2013 declined slightly from $6.1 billion as of December 31, 2012 primarily due to a decline in servicer liabilities as a result of a decrease in the population of seriously delinquent loans. See “NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS” for additional information.

Total Equity (Deficit)

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

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Table 35 — Changes in Total Equity (Deficit)

	Three Months Ended					Twelve Months Ended
	12/31/2013	9/30/2013	6/30/2013	3/31/2013	12/31/2012	12/31/2013
	(in millions)					
Beginning balance	$33,436	$7,357	$9,971	$8,827	$4,907	$8,827
Net income	8,613	30,486	4,988	4,581	4,457	48,668
Other comprehensive income (loss), net of taxes:						
Changes in unrealized gains (losses) related to available-for-sale securities	970	(127)	(717)	2,280	1,261	2,406
Changes in unrealized gains (losses) related to cash flow hedge relationships[1]	66	76	84	90	94	316
Changes in defined benefit plans	186	2	2	20	(84)	210
Comprehensive income	9,835	30,437	4,357	6,971	5,728	51,600
Capital draw funded by Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(30,436)	(4,357)	(6,971)	(5,827)	(1,808)	(47,591)
Other	—	(1)	—	—	—	(1)
Total equity (deficit)/Net worth	$12,835	$33,436	$7,357	$9,971	$8,827	$12,835
Aggregate draws under the Purchase Agreement (as of period end)[2]	$71,336	$71,336	$71,336	$71,336	$71,336	$71,336
Aggregate senior preferred stock dividends paid to Treasury in cash (as of period end)	$71,345	$40,909	$36,552	$29,581	$23,754	$71,345

(1) Represents the reclassification of losses into earnings related to our closed cash flow hedges as the originally forecasted transactions affected earnings.

(2) Does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. Under the Purchase Agreement, the payment of dividends cannot be used to reduce prior draws from Treasury.

We requested $0 million and $19 million in draws from Treasury under the Purchase Agreement to eliminate quarterly deficits in net worth for 2013 and 2012, respectively. At December 31, 2013, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2013. We paid cash dividends to Treasury of $47.6 billion and $7.2 billion during 2013 and 2012, respectively. Based on our Net Worth Amount at December 31, 2013 and the 2014 Capital Reserve Amount of $2.4 billion, our dividend obligation to Treasury in March 2014 will be $10.4 billion.

Our available-for-sale securities net unrealized gains (losses) was $1.0 billion and $(1.4) billion at December 31, 2013 and 2012, respectively. This $2.4 billion improvement in AOCI was primarily due to fair value gains on our non-agency mortgage-related securities due to the the impact of spread tightening and the movement of these securities with unrealized losses towards maturity.

RISK MANAGEMENT

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate and other market risks; and (c) operational risk. See “RISK FACTORS” for additional information regarding these and other risks. See “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK” for information about our interest rate and other market risks.

Risk management is a critical aspect of our business. We manage risk through a framework whereby our executive management is responsible for independent risk evaluation. Within this framework, executive management monitors performance against our risk management strategies and established risk limits and reporting thresholds, identifies and assesses potential issues and provides oversight regarding changes in business processes and activities. For information about our Board's role in oversight of risk management, see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Leadership Structure and Role in Risk Oversight."

We utilize an internal economic capital framework and models to help inform our risk management process. Our economic capital framework provides a risk-based measurement of capital to reflect relevant market, credit, counterparty, and operational risks. We assign economic capital internally to asset classes based on their respective risks. We use economic capital as an input to inform economic decisions, establish risk limits, measure profitability, and estimate fair values.

We believe that there was significant progress in resolving some of the legal and regulatory issues in the market during 2013. However, the legal, political and regulatory influences on the financial services industry have continued to create significant challenges and, as a result, we believe that our risk profile remained elevated in 2013. Drivers of this continued elevated risk are: (a) continued uncertainty in the mortgage industry, including the future structure of the U.S. housing market; and (b) continued pressure on mortgage seller/servicers, including changing practices in underwriting and foreclosure processes as well as on-going litigation by federal agencies related to prior practices.

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Management took actions in 2013 to mitigate risks associated with our operations and control environment. For a discussion of the operational risks we face and our mitigation actions, see "Operational Risks."

We expect legal, political and regulatory influences to continue to be significant factors in 2014, which could further increase uncertainty in the mortgage industry, increase our operational and people risks, or increase the uncertainty associated with the use of our models.

Credit Risk

We are subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations to us.

Mortgage Credit Risk

We are exposed to mortgage credit risk principally in our single-family credit guarantee and multifamily mortgage portfolios because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment. All mortgages that we purchase or guarantee have an inherent risk of default. We are also exposed to mortgage credit risk related to our investments in non-Freddie Mac mortgage-related securities. For information about our holdings of these securities, see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities."

Single-Family Mortgage Credit Risk

Single-family mortgage credit risk is primarily influenced by the credit profile of the borrower of the mortgage (e.g., credit score, credit history, and monthly income relative to debt payments), documentation level, the number of borrowers, the features of the mortgage itself, the purpose of the mortgage, occupancy type, property type and value, the LTV ratio, and local and regional economic conditions, including home prices and unemployment rates.

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage eligibility and underwriting standards, and the seller/servicers represent and warrant to us that the mortgages sold to us meet these standards. Through our delegated underwriting process, mortgage loans and the borrowers' ability to repay the loans are evaluated using a number of critical risk characteristics. For more information on the underwriting process, see "BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Underwriting Requirements and Quality Control Standards."

We were significantly adversely affected by deteriorating conditions in the single-family housing and mortgage markets during 2006 to 2008. The mortgage market began to undergo significant changes starting in 2008. Financial institutions tightened their underwriting standards and, since 2009, the mortgage origination market has consisted predominately of fixed-rate amortizing loans.

Conditions in the mortgage market improved in most geographical areas during the last two years. However, many single-family mortgage loans, especially those originated from 2005 through 2008, were adversely affected by the compounding pressures on household wealth caused by significant declines in home values during the housing crisis that began in 2006 and the ongoing weak employment environment in many areas. The UPB of our single-family non-performing loans declined during 2013, but remained at elevated levels compared to our historical experience.

The table below presents certain credit information about loans in our single-family credit guarantee portfolio by year of origination as of December 31, 2013 and for the year then ended.

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Table 36 — Single-Family Credit Guarantee Portfolio Data by Year of Origination(1)

	December 31, 2013						Year Ended December 31, 2013
	Percent of Portfolio	Average Credit Score(2)	Original LTV Ratio	Current LTV Ratio(3)	Current LTV Ratio >100%(3)(4)	Serious Delinquency Rate(5)	Percent of Credit Losses
Year of Origination							
2013	16 %	755	71 %	69 %	— %	0.01 %	<1 %
2012	16	761	69	61	—	0.04	<1
2011	8	757	69	58	—	0.18	<1
2010	7	754	69	60	—	0.39	1
2009	7	751	69	62	1	0.88	2
Subtotal - New single-family book	54	757	69	63	—	0.24	3
HARP and other relief refinance loans(6)	21	735	89	81	21	0.64	7
2005-2008 Legacy single-family book	16	704	75	87	29	8.77	81
Pre-2005 Legacy single-family book	9	711	72	50	3	3.24	9
Total	100 %	739	75	69	10	2.39	100 %

(1) Based on the year of origination (except for HARP and other relief refinance loans) for loans remaining in the portfolio at December 31, 2013, which totaled $1.7 trillion, rather than all loans originally guaranteed by us and originated in the respective year.

(2) Based on FICO score of the borrower as of the date of loan origination and may not be indicative of the borrowers' current creditworthiness. Excludes less than 1% of loans in the portfolio because the FICO scores at origination were not available.

(3) We estimate current market values by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination.

(4) Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total UPB of loans in the category.

(5) See "Credit Performance — Delinquencies" for further information about our reported serious delinquency rates.

(6) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2013). All other refinance loans are presented in the year that the refinancing occurred.

Improvement in home prices in many areas of the U.S. during 2013 generally led to improved current LTV ratios of the loans in our portfolio as of December 31, 2013. Loans with current LTV ratios greater than 100% comprised 10% and 15%, of our single-family credit guarantee portfolio, based on UPB at December 31, 2013 and 2012, respectively, and comprised approximately 68% and 82% of our credit losses recognized in 2013 and 2012, respectively. For the loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 80%, the borrowers had a weighted average credit score at origination of 722 at both December 31, 2013 and 2012.

As of December 31, 2013, 8.0% of the total number of single-family loans we purchased or guaranteed that were originated in 2005 to 2008 had been foreclosed or completed a short sale transaction resulting in a loss (before consideration of recoveries). In addition, approximately 8.8% of loans originated in those years that remained in our single-family credit guarantee portfolio as of December 31, 2013 were seriously delinquent. Many of the loans from those years have been modified, as shown in “Table 49 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio.” The gradual reduction of our 2005-2008 Legacy single-family book has positively impacted the payment performance of our single-family credit guarantee portfolio. However, the rate at which this replacement is occurring continues to be negatively affected by a low volume of new purchase mortgage originations and a lengthy foreclosure process in many states.

Characteristics of the Single-Family Credit Guarantee Portfolio

The average UPB of loans in our single-family credit guarantee portfolio was approximately $155,000 and $151,000 at December 31, 2013 and 2012, respectively. We purchased or issued other guarantee commitments for approximately 2,070,000 and 2,036,000 single-family loans totaling $422.7 billion and $426.8 billion of UPB during 2013 and 2012, respectively. Our single-family credit guarantee portfolio consists of first-lien mortgage loans predominately secured by the borrower’s primary residence. Approximately 96% of the single-family mortgages we purchased or guaranteed in 2013 were fixed-rate amortizing mortgages, based on UPB, and the remainder were ARM mortgage loans. Approximately 73% of the single-family mortgages we purchased or guaranteed in 2013 were refinance mortgages, including approximately 23% that were relief refinance mortgages, based on UPB.

The credit quality of the single-family loans in our New single-family book is significantly better than that of our 2005-2008 Legacy single-family book, as measured by original LTV ratios, FICO scores, the proportion of loans underwritten with full documentation, as well as delinquency rates and credit losses. Our New single-family book comprised an increasing proportion of the portfolio during 2013, and the proportion of loans originated prior to 2009 continued to decline.

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The percentage of home purchase loans in our loan acquisition volume was at a low level and refinance loan activity remained high during 2013. During 2013 and 2012, we purchased or guaranteed more than 1.5 million and approximately 1.7 million, respectively, of single-family loans that were refinance mortgages, totaling $308.7 billion and $351.1 billion in UPB, respectively. Our purchases of refinance mortgages declined for the three most recent quarters, which we believe was a result of rising mortgage interest rates. As of December 31, 2013 and 2012, there were approximately 10.7 million and 10.9 million loans, respectively, in our single-family credit guarantee portfolio, including 2.0 million and 1.6 million relief refinance mortgages, respectively.

The tables below provide additional characteristics of single-family mortgage loans purchased during 2013, 2012 and 2011, and of our single-family credit guarantee portfolio at December 31, 2013, 2012 and 2011.

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Table 37 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio[1]

	Percent of Purchases During the Year Ended December 31,								
	2013			2012			2011		
	Relief Refi	All Other	Total	Relief Refi	All Other	Total	Relief Refi	All other	Total
Original LTV Ratio Range									
60% and below	3 %	19 %	22 %	4 %	21 %	25 %	6 %	23 %	29 %
Above 60% to 70%	2	12	14	2	12	14	3	13	16
Above 70% to 80%	3	33	36	3	29	32	5	32	37
Above 80% to 100%	7	13	20	8	9	17	8	6	14
Above 100% to 125%	5	<1	5	7	<1	7	4	<1	4
Above 125%	3	<1	3	5	<1	5	—	—	—
Total	23 %	77 %	100 %	29 %	71 %	100 %	26 %	74 %	100 %
Weighted average original LTV ratio	91 %	71 %	75 %	97 %	68 %	76 %	77 %	67 %	70 %
Credit Score[2]									
740 and above	11 %	55 %	66 %	17 %	55 %	72 %	16 %	55 %	71 %
700 to 739	5	15	20	6	11	17	5	13	18
660 to 699	4	6	10	4	4	8	3	5	8
620 to 659	2	1	3	1	1	2	1	1	2
Less than 620	1	<1	1	1	<1	1	1	<1	1
Not available	<1	<1	<1	<1	<1	<1	<1	<1	<1
Total	23 %	77 %	100 %	29 %	71 %	100 %	26 %	74 %	100 %
Weighted average credit score:									
Total mortgages	727	756	749	740	762	756	744	759	755

	Percent of Purchases During the Year Ended December 31,		
	2013	2012	2011
Loan Purpose			
Purchase	27 %	18 %	22 %
Cash-out refinance	16	15	18
Other refinance[3]	57	67	60
Total	100 %	100 %	100 %
Property Type			
Detached/townhome[4]	93 %	94 %	94 %
Condo/Co-op	7	6	6
Total	100 %	100 %	100 %
Occupancy Type			
Primary residence	88 %	91 %	92 %
Second/vacation home	4	4	4
Investment	8	5	4
Total	100 %	100 %	100 %

(1) Percentages are based on the UPB of the single-family credit guarantee portfolio.

(2) Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent the credit score of the borrower at the time of loan origination and may not be indicative of the borrowers' current creditworthiness.

(3) Other refinance loans include: (a) refinance mortgages with "no cash out" to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.

(4) Includes manufactured housing and homes within planned unit development communities. The UPB of manufactured housing mortgage loans purchased during the years ended December 31, 2013, 2012, and 2011 was $776 million, $676 million, and $376 million, respectively.

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Table 38 — Characteristics of the Single-Family Credit Guarantee Portfolio[1]

	Portfolio Balance at December 31,[2]					
	2013		2012		2011	
Original LTV Ratio Range						
60% and below	22	%	22	%	23	%
Above 60% to 70%	15		15		16	
Above 70% to 80%	38		40		42	
Above 80% to 100%	19		18		17	
Above 100%	6		5		2	
Total	100	%	100	%	100	%
Weighted average original LTV ratio	75	%	74	%	72	%
Estimated Current LTV Ratio Range[3]						
60% and below	33	%	28	%	25	%
Above 60% to 70%	18		14		12	
Above 70% to 80%	20		21		18	
Above 80% to 90%	12		13		15	
Above 90% to 100%	7		9		10	
Above 100% to 120%	6		8		10	
Above 120%	4		7		10	
Total	100	%	100	%	100	%
Weighted average estimated current LTV ratio:						
Relief refinance mortgages[4]	81	%	83	%	79	%
All other mortgages	66		74		80	
Total mortgages	69		75		80	
Credit Score[5]						
740 and above	58		56		55	
700 to 739	20		21		21	
660 to 699	13		14		14	
620 to 659	6		6		7	
Less than 620	3		3		3	
Not available	<1		<1		<1	
Total	100	%	100	%	100	%
Weighted average credit score:						
Relief refinance mortgages[4]	735		741		744	
All other mortgages	740		736		734	
Total mortgages	739		737		735	
Loan Purpose						
Purchase	26	%	27	%	30	%
Cash-out refinance	22		24		27	
Other refinance[6]	52		49		43	
Total	100	%	100	%	100	%
Property Type						
Detached/townhome[7]	93	%	92	%	92	%
Condo/Co-op	7		8		8	
Total	100	%	100	%	100	%
Occupancy Type						
Primary residence	90	%	90	%	91	%
Second/vacation home	4		5		5	

Investment	6		5		4	
Total	100	%	100	%	100	%

(1) Ending balances are based on the UPB of the single-family credit guarantee portfolio. Other Guarantee Transactions with ending balances of $1 billion at both December 31, 2013 and 2012, and $2 billion at December 31, 2011 are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.

(2) Includes loans acquired under our relief refinance initiative, which began in 2009.

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

(4) Relief refinance mortgages of all LTV ratios comprised approximately 21%, 18%, and 11% of our single-family credit guarantee portfolio by UPB as of December 31, 2013, 2012, and 2011, respectively.

(5) Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent the credit score of the borrower at the time of loan origination and may not be indicative of the borrowers' current creditworthiness.

(6) Other refinance loans include: (a) refinance mortgages with "no cash out" to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.

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

LTV Ratio

An increase in the estimated current LTV ratio of a loan indicates that the borrower's equity in the home has declined, and can negatively affect the borrower's ability to refinance (outside of HARP) or sell the property for an amount at or above the balance of the outstanding mortgage loan. Based on our historical experience, there is an increase in borrower default risk as LTV ratios increase. Due to our participation in HARP, we purchase a significant number of loans that have LTV ratios over 100%. HARP loans with LTV ratios over 100% represented 8% and 12% of our single-family mortgage purchases in 2013 and 2012, respectively. The percentage of mortgages in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was 10% and 15% at December 31, 2013 and 2012, respectively, and the serious delinquency rate for these loans was 9.9% and 12.7%, respectively. The portion of our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% declined during 2013 primarily due to improving home prices during the period.

Credit Score

Credit scores are a useful measure for assessing the credit quality of a borrower. Credit scores are numbers reported by credit repositories, based on statistical models, that summarize an individual's credit record. FICO scores are the most commonly used credit scores today. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores. Credit scores presented within this Form 10-K are at the time of origination and may not be indicative of the borrowers' creditworthiness at December 31, 2013.

Loan Purpose

Loan purpose indicates how the borrower intends to use the funds from a mortgage loan. In a purchase transaction, the funds are used to acquire a property. In a cash-out refinance transaction, in addition to paying off existing mortgage liens, the borrower obtains additional funds that may be used for other purposes, including paying off subordinate mortgage liens and providing unrestricted cash proceeds to the borrower. In other refinance transactions, the funds are used to pay off existing mortgage liens and may be used in limited amounts for certain specified purposes; such refinances are generally referred to as "no cash-out" or "rate and term" refinances. The percentage of home purchase loans in our loan acquisition volume remained at a low level during 2013, as low interest rates contributed to high refinance activity. Cash-out refinancings generally have had a higher risk of default than mortgages originated in no cash-out, or rate and term, refinance transactions.

Property Type

Townhomes and detached single-family houses are the predominant type of single-family property. Condominiums are a property type that historically experiences greater volatility in home prices than detached single-family residences. Condominium loans in our single-family credit guarantee portfolio have a higher percentage of first-time homebuyers and homebuyers whose purpose is for investment or for a second home. In practice, investors and second home borrowers often seek to finance the condominium purchase with loans having a higher original LTV ratio than other borrowers. Approximately 36% of the condominium loans within our single-family credit guarantee portfolio are in California, Florida, and Illinois, which are among the states that have been most adversely affected by the recent housing and economic downturn. Condominium loans comprised 12% and 15% of our credit losses during 2013 and 2012, respectively, while these loans comprised 8% of our single-family credit guarantee portfolio at both December 31, 2013 and 2012.

Occupancy Type

Borrowers may purchase a home as a primary residence, second home or investment property that is typically a rental property. Mortgage loans on properties occupied by the borrower as a primary residence tend to have a lower credit risk than mortgages on investment properties or secondary residences.

Geographic Concentration

Local economic conditions can affect borrowers' ability to repay loans and the value of the collateral underlying the loans. Because our business involves purchasing mortgages from every geographic region in the U.S., we maintain a geographically diverse single-family credit guarantee portfolio. In recent years, our credit losses have been greatest in those states that experienced significant cumulative declines in property values since 2006, such as California, Florida, Nevada and Arizona. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for more information concerning the distribution of our single-family credit guarantee portfolio by geographic region.

Mortgages with Second Liens

The presence of a second lien can increase the risk that a borrower will default. A second lien reduces the borrower's equity in the home, and has a negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first mortgage and second lien. As of both December 31, 2013 and 2012, based on data collected by us at loan delivery, approximately 14% of the loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first mortgage. As of both December 31, 2013 and 2012, we estimate that these loans comprised 17% of our seriously delinquent loans based on UPB. Borrowers are free to obtain second-lien financing after origination and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages.

Attribute Combinations

Certain combinations of loan characteristics often can indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of serious delinquency and default. We estimate that there were $12.8 billion and $12.0 billion at December 31, 2013 and 2012, respectively, of loans in our single-family credit guarantee portfolio with both original LTV ratios greater than 90% and FICO scores less than 620 at the time of loan origination. We continue to purchase certain of these loans if they are covered by credit enhancements for the UPB in excess of 80% or if they are HARP loans. Certain mortgage product types, including interest-only or option ARM loans, have features that may also add to credit risk. See “Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for information about certain attribute combinations of our single-family mortgage loans.

Single-Family Mortgage Product Types

Product mix affects the credit risk profile of our total mortgage portfolio. The primary mortgage products in our single-family credit guarantee portfolio are first lien, fixed-rate mortgage loans secured by the borrower’s primary residence. See “Other Categories of Single-Family Mortgage Loans” below for additional information on higher-risk mortgages in our single-family credit guarantee portfolio.

For purposes of presentation within this Form 10-K and elsewhere in our reporting, we have categorized a number of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust in the future, the rate is determined at the time of modification rather than at a subsequent date.

The following paragraphs provide information on the interest-only, option ARM, adjustable rate, and conforming jumbo loans in our single-family credit guarantee portfolio. Interest-only and option ARM loans are higher-risk mortgage products based on the features of these types of loans, and have experienced significantly higher serious delinquency rates than fixed-rate amortizing mortgage products.

Interest-Only Loans

Interest-only loans have an initial period during which the borrower pays only interest, and at a specified date the monthly payment increases to begin reflecting repayment of principal. Interest-only loans represented approximately 2% and 3% of the UPB of our single-family credit guarantee portfolio at December 31, 2013 and 2012, respectively. We discontinued purchasing such loans on September 1, 2010. The balance of these loans has declined significantly in recent years as many of these borrowers have repaid their loans, completed foreclosure transfers or foreclosure alternatives, refinanced or received loan modifications into an amortizing loan product (and thus these loans are no longer classified as interest-only loans).

The table below presents information for mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at December 31, 2013 that contain interest-only payment terms. The reported balances in the table below are aggregated by interest-only loan product type and categorized by the year in which the loan begins to require payments of principal. At December 31, 2013, approximately 10% of these interest-only loans are scheduled to begin requiring payments of principal in 2014 or 2015. The timing of the actual change in payment terms may differ from those presented due to a number of factors, including refinancing.

Table 39 — Single-Family Loans Scheduled Payment Change to Include Principal by Year at December 31, 2013[1]

	2013 and Prior (in millions)	2014	2015	2016	2017	2018	Thereafter	Total
ARM/interest-only	$10,889	$581	$2,740	$4,153	$6,769	$2,720	$565	$28,417
Fixed/interest-only	—	9	178	857	4,128	861	269	6,302
Total	$10,889	$590	$2,918	$5,010	$10,897	$3,581	$834	$34,719

(1) Based on the UPBs of mortgage products that contain interest-only provisions and that begin amortization of principal in each of the years shown. These reported balances are based on the UPB of the underlying mortgage loans and do not reflect the publicly-available security balances we use to report the composition of our PCs and REMICs and Other Structured Securities. Excludes: (a) mortgage loans underlying Other Guarantee Transactions since the payment change information is not available to us for these loans; and (b) any mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to an amortizing loan product.

The table below presents the trend of serious delinquency information for interest-only mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, categorized by the year in which the loan begins to require payments of principal. Loans where the year of payment change is 2013 or prior have already changed to require

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payments of principal as of December 31, 2013; loans where the year of payment change is 2014 or later still require only payments of interest as of December 31, 2013 and will not require payments of principal until a future period.

Table 40 — Serious Delinquency Rates by Year of Payment Change to Include Principal[1]

	As of December 31, 2013		
Year of payment change:	2013	2012	2011
2011 and prior	7.61 %	10.58 %	13.22 %
2012	12.50	19.35	20.98
2013	13.73	18.11	17.08
2014 and after	14.22	17.67	18.52

(1) Based on loans remaining in the single-family guarantee portfolio as of December 31, 2013, 2012, and 2011, rather than all loans guaranteed by us and originated in the respective year. Excludes mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to an amortizing loan product.

As shown in the table above, the trend in serious delinquency rates of interest-only loans that experienced a change to become amortizing (when the loans begin to require payments of principal) during the last three years has not been significantly affected by the change in the payment terms. We believe that the serious delinquency rates of interest-only loans during the last three years have been more affected by macro-economic conditions, such as unemployment rates and cumulative home price declines in many geographic areas since 2006, than by the increase in the borrower’s monthly payment. In addition, a number of these loans were categorized as Alt-A, due to reduced documentation standards at the time of loan origination. The overall serious delinquency rate for all interest-only loans in our single-family credit guarantee portfolio was 12.5% as of December 31, 2013. Approximately 69% of all interest-only loans in our single-family credit guarantee portfolio had not yet begun amortization of principal and 37% of all interest-only loans in our single-family credit guarantee portfolio had current LTV ratios greater than 100% as of December 31, 2013. Since a substantial portion of these loans were originated in 2005 through 2008 and are located in geographical areas that have been most impacted by declines in home prices since 2006, we believe that the serious delinquency rate for interest-only loans will remain high in 2014.

Option ARM Loans

Most option ARM loans have initial periods during which the borrower has various options as to the amount of each monthly payment, until a specified date, when the terms are recast. We have not purchased option ARM loans in our single-family credit guarantee portfolio since 2007. At both December 31, 2013 and 2012, option ARM loans represented less than 1% of the UPB of our single-family credit guarantee portfolio. Included in this exposure was $5.5 billion and $6.3 billion of option ARM securities underlying certain of our Other Guarantee Transactions at December 31, 2013 and 2012, respectively. While we have not categorized these option ARM securities as either subprime or Alt-A securities for presentation within this Form 10-K and elsewhere in our reporting, they could exhibit similar credit performance to collateral identified as subprime or Alt-A. For reporting purposes, loans within the option ARM category continue to be presented in that category following a modification of the loan, even though the modified loan no longer provides for optional payment provisions. As of December 31, 2013 and 2012, approximately 11.0% and 8.1%, respectively, of the option ARM loans within our single-family credit guarantee portfolio had been modified. For information on our exposure to option ARM loans through our holdings of non-agency mortgage-related securities, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities.”

Adjustable-Rate Mortgage Loans

Adjustable-rate mortgage loans may have initial periods during which the interest rate and monthly payment remains fixed, until a specified date, when the interest rate begins to adjust, or they may adjust at regular intervals after origination (typically annually). At each reset date, the loan's interest rate is adjusted based on a market index rate, subject to specific terms, including a limit on the amount of change in the rate from the preceding period's interest rate. In a rising interest rate environment, ARM borrowers typically default at a higher rate than fixed-rate borrowers.

The table below presents information for mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions and certain REMICs, at December 31, 2013 that contain adjustable payment terms. The reported balances in the table below are aggregated by product type and categorized by year of the next scheduled contractual reset date. At December 31, 2013, approximately 54% of these loans have interest rates that are scheduled to reset in 2014 or 2015. The timing of the actual reset dates may differ from those presented due to a number of factors, including prepayments or the borrower's exercising the terms of the mortgage (certain of which could delay or accelerate the timing of the reset date).

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Table 41 — Single-Family Next Scheduled Adjustable-Rate Resets by Year at December 31, 2013[1]

	2014	2015	2016	2017	2018	Thereafter	Total
	(in millions)						
ARMs/amortizing	$21,467	$3,559	$6,711	$6,704	$7,301	$20,651	$66,393
ARMs/interest-only[2]	25,056	1,132	856	1,072	265	36	28,417
Balloon/resets[3]	48	4	—	—	—	1	53
Total	$46,571	$4,695	$7,567	$7,776	$7,566	$20,688	$94,863

(1) Based on the UPBs of mortgage products that contain adjustable-rate interest provisions and are scheduled to reset during the periods specified above. These reported balances are based on the UPB of the underlying mortgage loans and do not reflect the publicly-available security balances we use to report the composition of our PCs and REMICs and Other Structured Securities. Excludes: (a) mortgage loans underlying Other Guarantee Transactions and certain REMICs since rate reset information is not available to us for these loans; and (b) any amortizing ARM loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to a fixed-rate loan product.

(2) Reflects the UPB of interest-only loans that reset in each of the years shown. We report loans in the interest-only category if their original terms include interest-only provisions for a pre-determined period of time before the monthly payment changes to include amortization of principal. Includes $10.9 billion of loans that were interest-only at origination that have converted to include amortization of principal as of December 31, 2013.

(3) Effective January 1, 2013, we no longer purchase balloon/reset mortgages.

The table below presents serious delinquency information for adjustable-rate mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, categorized by the year in which the loan first had an interest rate reset. Loans where the year of first interest rate reset is 2013 or prior have already had one or more interest rate resets as of December 31, 2013; loans where the year of first interest rate reset is 2014 or later have not yet had an interest rate reset as of December 31, 2013 and will not have an interest rate reset until a future period.

Table 42 — Serious Delinquency Rates by Year of First Rate Reset[1]

	December 31,		
Year of payment change:	2013	2012	2011
2011 and prior	4.42 %	5.99 %	7.48 %
2012	13.40	19.44	22.69
2013	10.32	13.69	12.78
2014 and after	2.03	3.64	5.21

(1) Based on loans remaining in the single-family credit guarantee portfolio as of December 31, 2013, 2012, and 2011, rather than all loans guaranteed by us and originated in the respective year. Excludes mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to a fixed-rate loan product.

As shown in the table above, the trend in serious delinquency rates of adjustable-rate loans that experienced an interest rate reset during the last three years has not been significantly affected by the change in interest rate of the loan. Except for interest-only loans that began to amortize at the reset date, there were not significant increases to the borrowers' payments when these loans reached their first reset dates because market interest rates have generally declined in recent years. In recent years, ARM loans have experienced high serious delinquency rates well before reaching the dates at which the loans have reached their first rate reset. We believe that serious delinquency rates of ARM loans during the last three years have been more affected by macro-economic conditions, such as unemployment rates and cumulative home price declines in many geographic areas since 2006, than by changes in the interest rates of the loans. See "RISK FACTORS — Competitive and Market Risks — Changes in interest rates could negatively impact our results of operations, net worth and fair value of net assets" for additional information. Since a substantial portion of ARM loans were originated in 2005 through 2008 and are located in geographical areas that have been most affected by declines in home prices since 2006, we believe that the serious delinquency rate for ARM loans will continue to remain high in 2014.

Conforming Jumbo Loans

For loans originated after September 30, 2011, conforming jumbo loans on a one-family residence have UPB at origination that is greater than $417,000 and up to $625,500 in certain “high-cost” areas. We purchased or guaranteed $30.0 billion and $33.5 billion of conforming jumbo loans during the years ended December 31, 2013 and 2012, respectively. The UPB of conforming jumbo loans in our single-family credit guarantee portfolio as of December 31, 2013 and 2012 was $69.0 billion and $57.0 billion, and comprised 4% and 3% of the portfolio, respectively. The average size of these loans was approximately $518,000 and $530,000 at December 31, 2013 and 2012, respectively. See “BUSINESS — Our Business” for further information on the conforming loan limits.

Other Categories of Single-Family Mortgage Loans

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

Subprime Loans

Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see "Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio" and "Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations" for further information). In addition, we estimate that approximately $1.8 billion and $2.0 billion of security collateral underlying our Other Guarantee Transactions at December 31, 2013 and 2012, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At December 31, 2013 and 2012, we held $39.7 billion and $44.4 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime loans. Approximately 5% of these securities were investment grade at both December 31, 2013 and 2012. The credit performance of loans underlying these securities deteriorated significantly since 2008. For more information on our exposure to subprime mortgage loans through our investments in non-agency mortgage-related securities see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities."

Alt-A Loans

Although there is no universally accepted definition of Alt-A, many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. The UPB of Alt-A loans in our single-family credit guarantee portfolio declined to $56.9 billion as of December 31, 2013 from $73.7 billion as of December 31, 2012 primarily due to refinancing into other mortgage products, foreclosure transfers, and other liquidation events. For reporting purposes, loans within the Alt-A category continue to be reported in that category following a modification of the loan, even though the borrower may have provided full documentation of assets and income before completing the modification. As of December 31, 2013 and 2012, approximately 16.3% and 11.8%, respectively, of the Alt-A loans within our single-family credit guarantee portfolio had completed a modification. As of December 31, 2013, for Alt-A loans in our single-family credit guarantee portfolio, the average FICO score at origination was 711. Although Alt-A mortgage loans comprised approximately 3% and 5% of our single-family credit guarantee portfolio as of December 31, 2013 and 2012, respectively, these loans represented approximately 26% and 23% of our credit losses during 2013 and 2012, respectively.

Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance mortgage initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A mortgage in this Form 10-K 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 December 31, 2013, we have purchased approximately $28.9 billion of relief refinance mortgages that were previously categorized as Alt-A loans in our portfolio, including $6.7 billion in 2013.

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A loans. At December 31, 2013 and 2012, we held investments of $11.0 billion and $14.8 billion in UPB, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. Approximately 5% and 9% of these securities were categorized as investment grade at December 31, 2013 and 2012, respectively. The credit performance of loans underlying these securities deteriorated significantly since 2008. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. For more information on our exposure to Alt-A mortgage loans through our investments in non-agency mortgage-related securities see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities."

Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio

The table below presents information about certain categories of single-family mortgage loans within our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These loans include categories based on

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product type and borrower characteristics present at origination. 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 characteristics will have an even higher risk of default than those with a single characteristic.

Table 43 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	As of December 31, 2013			
	UPB	Estimated Current LTV[2]	Percentage Modified[3]	Serious Delinquency Rate[4]
	(dollars in billions)			
Loans with one or more specified characteristics	$364.5	94 %	8.1 %	5.3 %
Categories (individual characteristics):				
Alt-A	56.9	87	16.3	10.1
Interest-only[5]	34.7	93	0.2	12.5
Option ARM[6]	6.4	86	11.0	12.3
Original LTV ratio greater than 90%, non-HARP mortgages	103.4	91	10.1	5.7
Original LTV ratio greater than 90%, HARP mortgages	154.3	103	0.5	1.0
Lower FICO scores at origination (less than 620)[7]	47.8	83	17.4	10.0

	As of December 31, 2012			
	UPB	Estimated Current LTV[2]	Percentage Modified[3]	Serious Delinquency Rate[4]
	(dollars in billions)			
Loans with one or more specified characteristics	$355.3	101 %	7.6 %	7.5 %
Categories (individual characteristics):				
Alt-A	73.7	100	11.8	11.4
Interest-only[5]	50.2	110	0.3	16.3
Option ARM[6]	7.3	105	8.1	16.3
Original LTV ratio greater than 90%, non-HARP mortgages	98.5	100	9.4	7.8
Original LTV ratio greater than 90%, HARP mortgages	120.4	108	0.2	1.0
Lower FICO scores at origination (less than 620)[7]	50.9	89	15.3	12.2

(1) Categories are not additive and a single loan may be included in multiple categories if more than one characteristic is associated with the loan.

(2) See endnote (3) to "Table 38 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information on our calculation of current LTV ratios.

(3) Represents the percentage of loans based on loan count in our single-family credit guarantee portfolio at period end that have been modified, including those with no changes in the interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan. Excludes loans underlying certain Other Guarantee Transactions for which data was not available.

(4) See "Credit Performance — Delinquencies" for further information about our reported serious delinquency rates.

(5)

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

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

(7) See endnote (2) to "Table 37 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio" for information on our presentation of FICO scores.

A significant portion of the loans in the higher-risk categories presented in the table above are included in our 2005-2008 Legacy single-family book. We have fully discontinued purchases of Alt-A (effective March 1, 2009), interest-only (effective September 1, 2010), and option ARM (since 2007) loans. The UPB of loans with one or more of these higher-risk characteristics in our single-family credit guarantee portfolio increased during 2013 primarily due to increased purchases of loans with original LTV ratios greater than 90% resulting from significant HARP activity. The balance of our non-HARP mortgages with original LTV ratios greater than 90% increased $4.9 billion from December 31, 2012 to December 31, 2013, since we continue to purchase certain of these loans if they are covered by credit enhancements for the UPB in excess of 80%. We also continue to purchase single-family loans with FICO scores below 620 in limited amounts if they meet our underwriting standards.

Credit Enhancements

The use of credit enhancements is intended to mitigate some of our potential credit losses. Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests (subject to certain exceptions, such as discussed below with respect to HARP). As guarantor, we remain responsible for the payment of principal and interest if mortgage insurance or other credit enhancements do not provide full reimbursement for covered losses. Our credit losses could increase if an entity that provides credit enhancement fails to fulfill its obligation (e.g., a mortgage insurer fails to pay a claim), as this would reduce the amount of our credit loss recoveries.

At December 31, 2013 and 2012, our credit-enhanced mortgages represented 17% and 13%, respectively, of our single-family credit guarantee portfolio, excluding those backing Ginnie Mae Certificates and HFA bonds guaranteed by us under the HFA initiative, based on UPB. Our financial guarantees backed by Ginnie Mae Certificates and HFA bonds under the HFA initiative are excluded because we consider the incremental credit risk to which we are exposed to be insignificant. In recent years, the percentage of our single-family loan purchases with credit enhancement coverage has been affected by high volumes of refinance activity. Refinance loans (other than HARP loans) typically have lower LTV ratios than home purchase loans, and are more likely to have an LTV ratio below 80% and not require credit protection as specified in our charter. Under HARP, we allow eligible borrowers who have mortgages with current LTV ratios over 80% to refinance their mortgages without obtaining new mortgage insurance in excess of the insurance coverage that was already in place.

We recognized recoveries from credit enhancements (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of $1.5 billion and $1.6 billion that reduced our charge-offs of single-family loans during 2013 and 2012, respectively. Substantially all of these amounts represent recoveries associated with our primary and pool mortgage insurance policies. During the third quarter of 2013, we entered into an agreement with one of our mortgage insurers to resolve outstanding and future primary mortgage insurance claims related to certain loans. We recognized recoveries of $0.2 billion in the third quarter of 2013 related to this agreement. In addition, we recognized recoveries from credit enhancements of $0.2 billion and $0.1 billion during 2013 and 2012, respectively, as part of REO operations income (expenses). These recoveries were also primarily associated with our primary and pool mortgage insurance policies.

We executed three transactions during 2013 that transfer a mezzanine credit loss position on certain groups of loans in our New single-family book. We believe approximately $45 billion of UPB related to these transactions qualified toward our 2013 Conservatorship Scorecard goal to demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion in aggregate UPB, subject to certain limitations. These transactions are intended to shift a significant portion of the mortgage credit risk from us to private investors. In July 2013, we executed a STACR debt note transaction for $500 million in UPB which provides us with credit protection coverage for $22.5 billion of UPB of loans in our single-family credit guarantee portfolio. A second STACR debt note transaction for $630 million in UPB, which provides us with credit protection coverage for an additional $35.3 billion of UPB, settled in November 2013. In the first and second STACR debt note transactions, we are exposed to the first $68 million and $106 million, respectively, of calculated losses associated with the reference pool of mortgage loans and a portion of credit events thereafter. The UPB of the STACR debt notes held by third parties represents the maximum amount of credit protection that is available to us from such third parties through the transaction.

In November 2013, we further reduced our exposure to credit losses from the reference pool of mortgage loans associated with the first STACR debt note transaction by obtaining third-party insurance to cover up to $77.4 million of our mezzanine exposure to credit losses. In November 2013, FHFA announced that we had achieved the 2013 Scorecard goal for risk transfer transactions.

Certain of our single-family Other Guarantee Transactions utilize subordinated security structures as a form of credit enhancement. At December 31, 2013 and 2012, the UPB of single-family Other Guarantee Transactions with subordination coverage at origination was $2.6 billion and $3.0 billion, and the subordination coverage on these securities was $399 million and $503 million, respectively. At December 31, 2013 and 2012, the serious delinquency rate on single-family Other Guarantee Transactions with subordination coverage was 19.0% and 20.5%, respectively.

See "Institutional Credit Risk" for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including information about our mortgage loan insurers. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for additional information about credit protection and other forms of credit enhancements covering loans in our single-family credit guarantee portfolio. See "CONSOLIDATED

BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities" for credit enhancement and other information about our investments in non-Freddie Mac mortgage-related securities.

Single-Family Loan Workouts and the MHA Program

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our loan workouts consist of: (a) forbearance agreements; (b) repayment plans; (c) loan modifications; and (d) foreclosure alternatives (i.e., short sales or deed in lieu of foreclosure transactions). Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgages and provides alternatives to foreclosure.

Our seller/servicers have an active role in our loss mitigation efforts. A decline in their performance could affect the overall quality of our credit performance (including by missing opportunities for mortgage modifications), which could have significant effects on our ability to mitigate credit losses. The risk of such a decline in performance remains high. In 2012, we

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began to permit the transfer of servicing for certain groups of loans that were delinquent or were deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the loans. Depending on our experience with the results of these transfers and specific servicer experience and capacity, we may permit additional transfers in the future. For more information, see "RISK FACTORS — Competitive and Market Risks — Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us."

During 2013, we helped approximately 168,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various workout programs, and we completed approximately 82,000 foreclosures. We bear the full costs associated with our loan workouts and foreclosure alternatives on mortgages that we own or guarantee, and do not receive any reimbursement from Treasury. These costs include borrower and servicer incentive fees as well as the cost of any monthly payment reductions.

Home Affordable Modification Program and Non-HAMP Modifications

Our primary loan modification initiatives are HAMP and our non-HAMP standard loan modification initiatives. HAMP commits U.S. government, Freddie Mac and Fannie Mae funds to help eligible homeowners avoid foreclosures and keep their homes through mortgage modifications. Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP requires that each borrower complete at least a three month trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. HAMP is scheduled to end in December 2015. In March 2013, as part of the servicing alignment initiative, we announced a streamlined modification initiative, which provides an additional modification opportunity to certain borrowers. The modification that borrowers receive under this initiative will have the same mortgage terms as our non-HAMP standard modification.

During 2013, approximately 83,000 borrowers having loans with aggregate UPB of $17.4 billion completed modifications under all of our programs, and, as of December 31, 2013, approximately 21,000 borrowers were in the modification trial period. For information about the percentage of completed loan modifications that remained current, see "Table 46 — Quarterly Percentages of Modified Single-Family Loans — Current and Performing."

During 2013 and 2012, approximately 60,000 and 29,000 borrowers, respectively, completed a non-HAMP loan modification. As of December 31, 2013, the percentage of our non-HAMP modifications that were completed in 2010, 2011, 2012, and 2013, that subsequently became seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 39%, 36%, 16%, and 7%, respectively. Based on information provided by the MHA Program administrator, our servicers had completed more than 239,000 loan modifications under HAMP from the introduction of the initiative in 2009 through December 31, 2013, compared to approximately 217,000 cumulative HAMP completions as of December 31, 2012. According to the administrator, the number of our loans in the HAMP trial period declined to 4,970 as of December 31, 2013 from 9,440 as of December 31, 2012. As of December 31, 2013, the percentage of our HAMP modifications that were completed in 2010, 2011, 2012, and 2013 that subsequently became seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 26%, 19%, 12%, and 5%, respectively.

The portion of our modification volume that was HAMP-related declined and the portion of modification volume that was non-HAMP-related increased in 2013 compared to 2012. We attribute this shift in the composition of our modification volume to both the availability of our non-HAMP modifications and the fact that a large number of the borrowers that were eligible for HAMP have already completed a modification or attempted but failed to complete the modification. We expect that our new streamlined modification initiative may cause our non-HAMP modification volume to be elevated in the first half of 2014.

The costs we incur related to HAMP have been, and will likely continue to be significant. We incurred $109 million and $177 million of servicer incentive expenses on HAMP loans during 2013 and 2012, respectively. We also incur certain incentives for borrowers who continue to perform under their HAMP modification, which are included within our benefit (provision) for credit losses on our consolidated statements of comprehensive income. The servicer incentive costs we incur related to our non-HAMP modifications have also been significant. We recently announced changes to certain servicer incentive fees for HAMP modifications completed on or after April 1, 2014.

Many of our HAMP loans have provisions for reduced interest rates that remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification. Certain of our non-HAMP loan modifications have similar features and, collectively, we refer to these types of loans as “step-rate modified loans.” The risk of default may increase for borrowers with step-rate modified loans due to the increase in monthly payments resulting from these scheduled increases in the contractual interest rate of the loan. A significant number of HAMP loan modifications were completed in 2010 and these loans will begin to experience their scheduled interest rate increases in 2015. As of December 31, 2013, the average current contractual interest rate for all step-rate modified loans was 2.3% and the average final interest rate that these loans are scheduled to reach in the future was 4.5%.

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The table below presents information about step-rate modified loans.

Table 44 — Step-Rate Modified Loans[1]

	As of December 31, 2013		Year of Payment Change[3]			
	UPB	Serious Delinquency[2]	2014	2015	2016	2017 and After
	(in billions, except rates)					
Year of completed modification:						
2009	$4.2	11 %	$4.2	$4.0	$3.5	$0.7
2010	18.1	12	—	18.0	16.7	14.7
2011	10.5	11	—	—	10.6	9.6
2012 and after	11.0	6	—	—	—	11.0
Total	$43.8	10	$4.2	$22.0	$30.8	$36.0

(1) Consists of step-rate modified loans (HAMP and non-HAMP) remaining in the single-family credit guarantee portfolio as of December 31, 2013, excluding those underlying Other Guarantee Transactions. Includes the portion, if any, of UPB that is non-interest bearing under the terms of the modification. Excludes loans in a modification trial period and those that were subsequently remodified under a non-HAMP initiative and no longer have step-rate terms.

(2) Based on loan count.

(3) Represents the UPB of all step-rate modified loans that are scheduled to experience an increase in their contractual interest rate in a given year. Individual loans will appear in each year for which they are scheduled to experience a rate increase.

Loan Workout Volumes and Modification Performance

The table below presents single-family loan workout volumes, serious delinquency rates, and foreclosure volumes for 2013, 2012 and 2011.

Table 45 — Single-Family Loan Workout, Serious Delinquency, and Foreclosure Volumes[1]

	Years Ended December 31,					
	2013		2012		2011	
	Number of Loans	Loan Balances	Number of Loans	Loan Balances	Number of Loans	Loan Balances
	(dollars in millions)					
Home retention actions:						
Loan modifications						
with no change in terms[2]	213	$25	533	$95	4,371	$778
with term extension	6,645	700	3,894	313	16,354	3,011
with change in interest rate and, in certain cases, term extension	46,739	7,314	38,871	6,246	68,584	15,231
with change in interest rate, term extension and principal forbearance	29,591	9,368	26,283	8,483	19,865	5,319
Total loan modifications[3]	83,188	17,407	69,581	15,137	109,174	24,339
Repayment plans[4]	28,610	4,016	33,350	4,746	33,421	4,787
Forbearance agreements[5]	12,019	2,331	13,026	2,557	19,516	3,821
Total home retention actions	123,817	23,754	115,957	22,440	162,111	32,947
Foreclosure alternatives:						
Short sale	41,362	9,016	51,972	11,626	45,623	10,524
Deed in lieu of foreclosure transactions	2,720	437	1,036	179	540	94

Total foreclosure alternatives	44,082	9,453	53,008	11,805	46,163	10,618
Total single-family loan workouts	167,899	$33,207	168,965	$34,245	208,274	$43,565
Seriously delinquent loan additions	237,580		305,449		374,970	
Single-family foreclosures[6]	81,605		105,060		121,751	
Seriously delinquent loans, at period end	255,325		352,860		414,134	

(1) Based on completed actions with borrowers for loans within our single-family credit guarantee portfolio. Excludes those modification, repayment and forbearance activities for which the borrower has started the required process, but the actions have not been made permanent or effective, such as loans in modification trial periods. Also excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, but these have not been incorporated into certain of our operational systems, due to delays in processing. These categories are not mutually exclusive and a loan in one category may also be included within another category in the same period (see endnote 5).

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

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

(4) Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a repayment plan for past due amounts. Excludes borrowers that are actively repaying past due amounts under a repayment plan, which totaled 16,768, 15,467, and 21,382 borrowers as of December 31, 2013, 2012, and 2011, respectively.

(5) Excludes loans with long-term forbearance under a completed loan modification. Many borrowers complete a short-term forbearance agreement before another loan workout is pursued or completed. We only report forbearance activity for a single loan once during each quarter; however, a single loan may be included under separate forbearance agreements in separate periods.

(6) Represents the number of our single-family loans that completed foreclosure transfers, including third-party sales at foreclosure auction in which ownership of the property is transferred directly to a third party rather than to us.

The number of seriously delinquent loans declined during 2013, and our loan modification volume increased in 2013 compared to 2012. The volume of foreclosures declined by 22% in 2013 compared to 2012, primarily due to lower volumes of single-family loans becoming seriously delinquent and continued high volumes of loan workouts in 2013. We expect our loan modification volume will decline in 2014, as compared to 2013.

The UPB of loans in our single-family credit guarantee portfolio for which we have completed a loan modification increased to $82 billion as of December 31, 2013 from $75 billion as of December 31, 2012. The number of modified loans in our single-family credit guarantee portfolio continued to increase and such loans comprised approximately 3.8% and 3.4% of our single-family credit guarantee portfolio as of December 31, 2013 and December 31, 2012, respectively. For the year ended December 31, 2013, approximately 56% of our loan modifications related to loans which were 180 days or more delinquent prior to the modification effective date. The estimated weighted average current LTV ratio for all modified loans in our single-family credit guarantee portfolio was 100% at December 31, 2013. The serious delinquency rate on these loans was 13.3% as of December 31, 2013.

The volume of short sale transactions remained at elevated levels in 2013 compared to our historical experience. However, our short sale activity declined in the last three quarters of 2013, which we believe is due to rising interest rates and strengthening home prices in most geographical areas, which make short sales a less attractive option for borrowers.

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The table below presents the percentage of modified single-family loans that were current and performing in each of the last eight quarterly periods.

Table 46 — Quarterly Percentages of Modified Single-Family Loans — Current and Performing[1]

	Quarter of Loan Modification Completion[2]							
HAMP loan modifications:	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012	4Q 2011
Time since modification:								
3 to 5 months	87 %	88 %	89 %	88 %	87 %	89 %	89 %	89 %
6 to 8 months		84	85	85	85	85	84	85
9 to 11 months			82	83	82	84	81	81
12 to 14 months				80	80	81	81	79
15 to 17 months					78	80	79	79
18 to 20 months						79	77	77
21 to 23 months							76	76
24 to 26 months								75

	Quarter of Loan Modification Completion[2]							
Non-HAMP loan modifications:	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	3Q 2012	1Q 2012	4Q 2011
Time since modification:								
3 to 5 months	82 %	83 %	84 %	83 %	82 %	84 %	72 %	78 %
6 to 8 months		77	78	79	79	79	64	69
9 to 11 months			74	75	75	77	60	62
12 to 14 months				72	72	74	62	58
15 to 17 months					69	71	59	59
18 to 20 months						69	56	57
21 to 23 months							55	56
24 to 26 months								55

	Quarter of Loan Modification Completion[2]							
Total (HAMP and Non-HAMP):	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	3Q 2012	1Q 2012	4Q 2011
Time since modification:								
3 to 5 months	84 %	85 %	86 %	85 %	84 %	87 %	85 %	86 %
6 to 8 months		79	81	81	82	83	80	80
9 to 11 months			78	78	78	81	77	75
12 to 14 months				75	76	78	76	73
15 to 17 months					73	77	74	73
18 to 20 months						75	73	71
21 to 23 months							71	70
24 to 26 months								68

(1) Represents the percentage of loans that are current and performing (no payment is 30 days or more past due) or have been paid in full. Excludes loans in modification trial periods.

(2) Loan modifications are recognized as completed in the quarterly period in which the servicer has reported the modification as effective and the agreement has been accepted by us. For loans that have been remodified (e.g., where a borrower has received a new modification after defaulting on the prior modification) the rates reflect the status of each modification separately. For example, in the case of a remodified loan where the borrower is performing, the previous modification would be presented as being in default in the applicable period.

Relief Refinance Mortgage Initiative and Home Affordable Refinance Program

Our relief refinance mortgage initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), gives eligible homeowners with existing loans that are owned or guaranteed by us an opportunity to refinance into loans with more affordable monthly payments and/or fixed-rate terms. While HARP is targeted at borrowers with current LTV ratios above 80%, our relief refinance initiative also allows borrowers with LTV ratios of 80% and below to participate. We implemented a number of changes to HARP and the relief refinance initiative in late 2011 and during 2012. These changes allow more borrowers to participate in the program and benefit from refinancing their home mortgages, including borrowers whose mortgages have LTV ratios above 125%. In addition, in April 2013, we extended HARP by two years to December 31, 2015, at the direction of FHFA.

Relief refinance mortgages (including HARP loans) generally present higher risk to us than other refinance loans we have purchased since 2009 because:

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- underwriting procedures for relief refinance mortgages are limited in many cases, and such procedures generally do not include all of the changes in underwriting standards we have implemented since 2008;
- many of these loans have relatively high LTV ratios (e.g., greater than 90%), which can increase the probability of default and increase the amount of our loss if the borrower does default;
- HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%; and
- beginning with changes announced in the fourth quarter of 2011, we have relieved the lenders of certain representations and warranties on the original mortgage being refinanced, which limits our ability to seek recovery or repurchase from the seller for breach. All relief refinance mortgages with application dates on or after November 19, 2012 have reduced representations and warranties from the seller. We continue to bear the credit risk for refinanced loans under this program, to the extent that such risk is not covered by existing mortgage insurance or other existing credit enhancements.

However, relief refinance mortgages (including HARP loans) generally have performed better than loans with similar characteristics remaining in our single-family credit guarantee portfolio that were originated prior to 2009 because, under the relief refinance initiative:

- borrowers must meet eligibility requirements, such as having no more than one late payment within the previous 12 months and no late payments within the six months prior to refinancing; and
- the new mortgage results in one or more of the following borrower benefits compared to the original loan: (a) a reduced monthly payment; (b) a lower interest rate; (c) a shorter loan term; or (d) replacement of an adjustable interest rate with a fixed interest rate.

Although our refinancing activity moderated in the second half of 2013, relief refinance activity remained high in 2013 driven by relatively low interest rates compared to historical levels and the changes to the HARP program noted above. The following table provides information about the volume of our relief refinance purchases as well as information about the serious delinquency rates of these loans.

Table 47 — Single-Family Relief Refinance Loans[1]

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	UPB	Number of Loans	Average Loan Balance[2]	UPB	Number of Loans	Average loan Balance[2]
	(dollars in millions, except for average loan balances)					
Purchases of relief refinance mortgages:						
HARP:						
Above 125% LTV ratio	$11,574	62,652	$185,000	$20,364	98,559	$207,000
Above 100% to 125% LTV ratio	21,005	110,302	190,000	29,648	144,529	205,000
Above 80% to 100% LTV ratio	29,958	167,420	179,000	36,886	191,208	193,000
Other (80% and below LTV ratio)	36,658	270,138	136,000	35,870	252,569	142,000
Total relief refinance mortgages	$99,195	610,512	162,000	$122,768	686,865	179,000

	As of December 31, 2013			As of December 31, 2012		
	UPB	Number of Loans	Serious Delinquency Rate	UPB	Number of Loans	Serious Delinquency Rate
	(dollars in millions)					

Balance of relief refinance mortgages:							
HARP:							
Above 125% LTV ratio	$30,579	158,531	0.90 %	$20,163	98,371	0.29	%
Above 100% to 125% LTV ratio	68,416	344,832	1.01	52,761	251,497	1.20	
Above 80% to 100% LTV ratio	114,688	610,128	0.85	100,122	499,125	1.00	
Other (80% and below LTV ratio)	127,991	936,038	0.32	114,164	774,212	0.32	
Total relief refinance mortgages	$341,674	2,049,529	0.64	$287,210	1,623,205	0.66	

(1) Consists of all single-family relief refinance mortgage loans that we either purchased or guaranteed during the period, including those associated with other guarantee commitments and Other Guarantee Transactions.
(2) Rounded to the nearest thousand.

For more information on relief refinance loans, including HARP, in our single-family credit guarantee portfolio, see "Table 36 — Single-Family Credit Guarantee Portfolio Data by Year of Origination," and "Table 37 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio."

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Credit Performance

Delinquencies

We report single-family serious delinquency rate information based on the number of loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Mortgage loans that have been modified are not counted as seriously delinquent as long as the borrower is less than three monthly payments past due under the modified terms. Single-family loans for which the borrower is subject to a forbearance agreement or a repayment plan will continue to reflect the past due status of the borrower.

Our single-family delinquency rates include all single-family loans that we own, that back Freddie Mac securities, and that are covered by our other guarantee commitments, except Freddie Mac financial guarantees that are backed by either Ginnie Mae Certificates or HFA bonds due to the credit enhancements provided on them by the U.S. government.

Some of our workout and other loss mitigation activities create fluctuations in our delinquency statistics. For example, single-family loans that we report as seriously delinquent before they enter a modification trial period continue to be reported as seriously delinquent for purposes of our delinquency reporting until the modifications become effective and the loans are removed from delinquent status by our servicers. Consequently, the volume and timing of loan modifications affect our reported serious delinquency rate. In addition, there may be temporary timing differences, or lags, in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency reporting.

Our serious delinquency rates have been affected by delays, including those due to increases in foreclosure process timeframes, general constraints on servicer capacity (which affects the rate at which servicers modify or foreclose upon loans), and court backlogs (in states that require a judicial foreclosure process). These situations generally extend the time it takes for the loans to be modified, foreclosed upon, or otherwise resolved, and thus transition out of serious delinquency. As of December 31, 2013 and 2012, the percentage of seriously delinquent loans that have been delinquent for more than six months was 71% and 72%, respectively, and most of these loans have been delinquent for longer than one year. Loans that have been delinquent for more than a year are more challenging to resolve as many of these borrowers: (a) may not be in contact with the servicer; (b) may not be eligible for modifications; or (c) are in geographic areas where the foreclosure process has lengthened or is subject to judicial review. The longer a loan remains delinquent, the greater the associated costs we incur, in part due to expenses associated with loss mitigation and foreclosure.

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

Table 48 — Single-Family Serious Delinquency Statistics

	As of December 31, 2013		As of December 31, 2012		As of December 31, 2011	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate
Credit Protection:						
Non-credit-enhanced	83 %	2.04 %	87 %	2.66 %	86 %	2.84 %
Credit-enhanced[1]	17	4.83	13	7.34	14	8.03
Total[2]	100 %	2.39	100 %	3.25	100 %	3.58

	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate
State:[3][4]									
Florida	42,948	17 %	6.44 %	69,034	20 %	9.87 %	82,006	20 %	10.89 %
New York	21,459	8	4.41	22,592	6	4.59	20,950	5	4.02
New Jersey	19,306	8	6.20	21,742	6	6.87	19,538	5	5.80
California	15,620	6	1.30	27,620	8	2.34	42,530	10	3.43
Illinois	15,521	6	2.79	22,923	7	4.08	28,039	7	4.72
All others	137,907	55	1.85	185,683	53	2.45	217,218	53	2.68
Total	252,761	100 %		349,594	100 %		410,281	100 %	

	# of Seriously Delinquent Loans	Percent	# of Seriously Delinquent Loans	Percent	# of Seriously Delinquent Loans	Percent
Aging, by locality:[4]						
Judicial review states:[5]						
Less than or equal to 1 year	59,129	23 %	79,422	23 %	99,388	24 %
More than 1 year and less than or equal to 2 years	30,604	12	50,506	14	67,894	17 %
More than 2 years	65,154	26	77,766	22	63,429	16 %
Non-judicial states:[5]						
Less than or equal to 1 year	60,175	24	87,641	25	115,495	28 %
More than 1 year and less than or equal to 2 years	17,968	7	30,435	9	42,950	10 %
More than 2 years	19,731	8	23,824	7	21,125	5 %
Combined:[5]						
Less than or equal to 1 year	119,304	47	167,063	48	214,883	52 %
	48,572	19	80,941	23	110,844	27 %

More than 1 year and less than or equal to 2 years								
More than 2 years	84,885	34		101,590	29		84,554	21 %
Total	252,761	100 %		349,594	100 %		410,281	100 %
Payment Status:								
One month past due	1.73 %			1.85 %			2.02 %	
Two months past due	0.57 %			0.66 %			0.70 %	

(1) See “Institutional Credit Risk” for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio.

(2) As of December 31, 2013, 2012, and 2011, approximately 61%, 68% and 68%, respectively, of the single-family loans reported as seriously delinquent were in the process of foreclosure.

(3) Represent the states with the highest number of seriously delinquent loans as of December 31, 2013.

(4) Excludes loans underlying certain single-family Other Guarantee Transactions since the geographic information is not available to us for these loans.

(5) For this presentation, the states and territories classified as having a judicial foreclosure process consist of: CT, DE, FL, HI, IA, IL, IN, KS, KY, LA, ME, ND, NE, NJ, NM, NY, OH, OK, OR, PA, PR, SC, SD, VI, VT, and WI. All other states are classified as having a non-judicial foreclosure process.

The serious delinquency rate of our single-family credit guarantee portfolio declined to 2.39% as of December 31, 2013 (which is the lowest level since March 2009) from 3.25% as of December 31, 2012, continuing the trend of improvement that began in 2010. As of December 31, 2013, our serious delinquency rate for the aggregate of those states that require a judicial foreclosure and all other states was 3.31% and 1.63%, respectively, compared to 4.32% and 2.35%, respectively, as of December 31, 2012.

During the years ended December 31, 2013 and 2012, the nationwide average for completion of a foreclosure (as measured from the date of the last scheduled payment made by the borrower) on our single-family delinquent loans, excluding those underlying our Other Guarantee Transactions, was 773 days and 611 days, respectively, which included: (a) an average of 943 days and 773 days, respectively, for foreclosures completed in states that require a judicial foreclosure process; and (b) an average of 567 days and 475 days, respectively, for foreclosures completed in states that do not require a judicial foreclosure process. During 2013, a significant number of loans that had been subject to delays discussed above (and that had been delinquent for more than a year) completed the foreclosure process, which caused the nationwide average for foreclosure completions to increase compared to 2012.

Serious delinquency rates for interest-only and option ARM products (which together represented approximately 2% of our total single-family credit guarantee portfolio at December 31, 2013) were 12.5% and 12.3% as of December 31, 2013, respectively, as compared to 16.3% for both at December 31, 2012. Serious delinquency rates of single-family fixed rate, amortizing loans with a term of 20 years or more, a more traditional mortgage product, were approximately 2.8% and 3.7% at December 31, 2013 and 2012, respectively.

The tables below present serious delinquency rates categorized by borrower and loan characteristics, including geographic region and origination year, and indicate that certain concentrations of loans have been more adversely affected by declines in home prices and weak economic conditions during the housing crisis that began in 2006. We purchased significant amounts of loans originated in 2005 through 2008 with higher-risk characteristics and, as of December 31, 2013, we continued to experience high serious delinquency rates on those loans.

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Table 49 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of December 31, 2013					
	Alt-A UPB	Non Alt-A UPB	Total UPB	Estimated Current LTV Ratio(1)	Percentage Modified(2)	Serious Delinquency Rate
	(dollars in billions)					
Geographical distribution:						
Arizona, California, Florida, and Nevada(3)	$23	$399	$422	68 %	5.9 %	3.0 %
Illinois, Michigan, and Ohio(4)	4	172	176	76	3.9	2.1
New York and New Jersey(5)	7	138	145	67	4.3	5.1
All other states	23	887	910	69	3.0	1.9
Year of origination(6):						
2013	—	270	270	69	—	—
2012	—	265	265	61	—	—
2011	—	120	120	58	—	0.2
2010	—	113	113	60	0.1	0.4
2009	—	120	120	62	0.5	0.9
HARP and other relief refinance loans(6)	—	342	342	81	0.3	0.6
2005-2008 Legacy single-family book	48	220	268	87	16.5	8.8
Pre-2005 Legacy single-family book	9	146	155	50	4.6	3.2

	As of December 31, 2012					
	Alt-A UPB	Non Alt-A UPB	Total UPB	Estimated Current LTV Ratio(1)	Percentage Modified(2)	Serious Delinquency Rate
	(dollars in billions)					
Geographical distribution:						
Arizona, California, Florida, and Nevada(3)	$30	$386	$416	82 %	5.4 %	5.0 %
Illinois, Michigan, and Ohio(4)	5	171	176	82	3.5	3.0
New York and New Jersey(5)	9	134	143	69	3.5	5.5
All other states	30	873	903	72	2.7	2.4
Year of origination(6):						
2012	—	254	254	67	—	—
2011	—	158	158	64	—	0.1
2010	—	156	156	65	—	0.3
2009	—	177	177	67	0.2	0.7
HARP and other relief refinance loans(6)	—	287	287	83	0.1	0.7
2005-2008 Legacy single-family book	62	326	388	98	11.0	9.6
Pre-2005 Legacy single-family book	12	206	218	56	3.3	3.2

	2013	2012

	Alt-A (in millions)	Non Alt-A	Total	Alt-A	Non Alt-A	Total
Credit Losses						
Geographical distribution:						
Arizona, California, Florida, and Nevada[3]	$802	$1,438	$2,240	$1,816	$4,526	$6,342
Illinois, Michigan, and Ohio[4]	158	773	931	276	1,500	1,776
New York and New Jersey[5]	56	106	162	60	118	178
All other states	231	1,224	1,455	550	2,779	3,329
Year of origination[6]:						
2013	—	—	—	N/A	N/A	N/A
2012	—	2	2	—	—	—
2011	—	9	9	—	3	3
2010	—	29	29	—	23	23
2009	—	95	95	—	134	134
Subtotal - New single-family book	—	135	135	—	160	160
HARP and other relief refinance loans[6]	—	348	348	—	263	263
2005-2008 Legacy single-family book	1,190	2,688	3,878	2,601	7,544	10,145
Pre-2005 Legacy single-family book	57	370	427	101	956	1,057

(1) See endnote (3) to “Table 38 — Characteristics of the Single-Family Credit Guarantee Portfolio” for information on our calculation of estimated current LTV ratios.

(2) Represents the percentage of loans, based on loan count, in our single-family credit guarantee portfolio at period end that have been modified, including those with no changes in interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan.

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

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

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

(6) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2013). All other refinance loans are presented in the year that the refinancing occurred. Prior period information has been revised to conform with the current period presentation.

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Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations

	As of December 31, 2013								
	Current LTV Ratio ≤ 80[1]		Current LTV Ratio of > 80 to 100[1]		Current LTV > 100[1]		Current LTV Ratio All Loans[1]		
	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Percentage Modified[3]	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed-rate	1.1 %	7.9 %	0.8 %	11.9 %	0.7 %	17.9 %	2.6 %	21.3 %	11.0 %
15- year amortizing fixed-rate	0.2	3.8	<0.1	3.8	<0.1	3.0	0.2	1.1	3.7
ARMs/adjustable rate[4]	0.1	9.9	<0.1	16.0	<0.1	28.7	0.1	13.3	12.9
Interest-only[5]	<0.1	12.3	<0.1	20.9	<0.1	31.3	<0.1	0.6	22.8
Other[6]	<0.1	3.9	<0.1	9.8	<0.1	17.5	<0.1	5.5	5.7
Total FICO scores < 620	1.4	7.0	0.8	11.9	0.7	18.3	2.9	17.4	10.0
FICO scores of 620 to 659:									
20 and 30- year or more amortizing fixed-rate	2.4	5.3	1.1	9.1	1.2	15.2	4.7	16.3	8.0
15- year amortizing fixed-rate	0.5	2.2	0.1	2.5	<0.1	2.1	0.6	0.5	2.2
ARMs/adjustable rate[4]	0.1	4.9	0.1	11.0	<0.1	25.3	0.2	3.5	8.5
Interest-only[5]	0.1	9.8	0.1	15.9	0.1	28.3	0.3	0.4	19.5
Other[6]	<0.1	3.6	<0.1	5.5	<0.1	6.3	<0.1	2.4	4.9
Total FICO scores of 620 to 659	3.1	4.5	1.4	9.0	1.3	15.8	5.8	12.6	7.2
FICO scores of ≥ 660:									
20 and 30- year or more amortizing fixed-rate	46.7	1.1	14.6	2.7	6.3	7.3	67.6	3.8	1.9
15- year amortizing fixed-rate	15.8	0.4	1.1	0.4	0.4	0.7	17.3	0.1	0.4
ARMs/adjustable rate[4]	3.4	1.0	0.5	5.1	0.2	16.3	4.1	0.8	2.3
Interest-only[5]	0.6	4.3	0.6	10.1	0.6	18.9	1.8	0.2	11.3
Other[6]	<0.1	2.0	0.1	1.8	<0.1	3.0	0.1	0.9	2.1
Total FICO scores ≥ 660	66.5	0.8	16.9	2.8	7.5	8.0	90.9	2.6	1.7
Total FICO scores not available	0.3	5.6	0.1	12.0	<0.1	22.6	0.4	7.9	8.5

All FICO scores:									
20 and 30- year or more amortizing fixed-rate	50.4	1.6	16.6	3.7	8.1	9.3	75.1	5.4	2.8
15- year amortizing fixed-rate	16.5	0.5	1.2	0.6	0.3	0.9	18.0	0.1	0.5
ARMs/adjustable rate[4]	3.6	1.6	0.6	6.2	0.2	18.4	4.4	1.4	3.1
Interest-only[5]	0.7	5.0	0.7	11.0	0.8	20.4	2.2	0.2	12.5
Other[6]	0.1	9.2	0.1	6.2	0.1	12.1	0.3	9.2	8.6
Total single-family credit guarantee portfolio[7]	71.3 %	1.3 %	19.2 %	3.8 %	9.5 %	9.9 %	100.0 %	3.8 %	2.4 %
By Region[8]									
FICO scores < 620:									
North Central	0.1 %	5.4 %	0.3 %	8.6 %	0.1 %	13.4 %	0.5 %	16.5 %	8.0 %
Northeast	0.4	10.3	0.2	18.1	0.2	25.6	0.8	19.6	14.4
Southeast	0.3	7.5	0.1	11.7	0.2	20.8	0.6	18.2	11.2
Southwest	0.3	5.3	0.1	10.3	<0.1	15.8	0.4	11.8	6.7
West	0.3	4.8	0.1	9.2	0.2	13.1	0.6	19.9	7.4
Total FICO scores < 620	1.4	7.0	0.8	11.9	0.7	18.3	2.9	17.4	10.0
FICO scores of 620 to 659:									
North Central	0.5	3.6	0.3	6.7	0.3	11.1	1.1	11.9	5.8
Northeast	0.8	6.6	0.3	14.0	0.4	23.0	1.5	13.4	10.3
Southeast	0.6	5.0	0.3	9.2	0.3	18.2	1.2	13.2	8.5
Southwest	0.5	3.2	0.2	6.8	<0.1	11.7	0.7	7.8	4.2
West	0.7	3.4	0.3	7.5	0.3	12.4	1.3	16.1	5.8
Total FICO scores of 620 to 659	3.1	4.5	1.4	9.0	1.3	15.8	5.8	12.6	7.2
FICO scores ≥ 660:									
North Central	10.7	0.6	3.8	1.9	1.5	5.3	16.0	2.1	1.2
Northeast	17.6	1.2	4.6	4.3	1.4	12.0	23.6	2.4	2.2
Southeast	9.4	1.2	3.2	2.9	2.0	10.0	14.6	3.0	2.4
Southwest	8.6	0.6	1.8	1.4	0.2	3.9	10.6	1.2	0.8
West	20.2	0.6	3.5	2.9	2.4	6.4	26.1	3.7	1.3
Total FICO scores ≥ 660	66.5	0.8	16.9	2.8	7.5	8.0	90.9	2.6	1.7
Total FICO scores not available	0.3	5.6	0.1	12.0	<0.1	22.6	0.4	7.9	8.5
All FICO scores:									
North Central	11.5	0.9	4.2	2.6	1.9	6.9	17.6	3.3	1.8
Northeast	19.0	1.8	5.1	5.8	1.9	15.1	26.0	3.8	3.2
Southeast	10.3	1.8	3.7	4.0	2.5	12.1	16.5	4.6	3.4
Southwest	9.4	1.0	2.1	2.5	0.3	6.6	11.8	2.2	1.4
West	21.1	0.8	4.1	3.5	2.9	7.4	28.1	4.7	1.7
Total single-family credit guarantee portfolio[7]	71.3 %	1.3 %	19.2 %	3.8 %	9.5 %	9.9 %	100.0 %	3.8 %	2.4 %

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	As of December 31, 2012								
	Current LTV Ratio ≤ 80[1]		Current LTV Ratio of > 80 to 100[1]		Current LTV > 100[1]		Current LTV Ratio All Loans[1]		
	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Percentage Modified[3]	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed-rate	1.0 %	8.3 %	0.8 %	13.4 %	0.9 %	22.9 %	2.7 %	18.8 %	13.4 %
15- year amortizing fixed-rate	0.2	4.2	<0.1	8.0	<0.1	9.5	0.2	1.2	4.5
ARMs/adjustable rate[4]	0.1	10.0	<0.1	16.5	<0.1	26.7	0.1	11.4	14.1
Interest-only[5]	<0.1	15.0	<0.1	20.8	0.1	33.6	0.1	0.6	27.6
Other[6]	<0.1	4.0	<0.1	8.4	<0.1	14.9	<0.1	4.9	5.7
Total FICO scores < 620	1.3	7.2	0.8	13.4	1.0	23.2	3.1	15.3	12.2
FICO scores of 620 to 659:									
20 and 30- year or more amortizing fixed-rate	2.2	5.5	1.3	9.7	1.7	18.8	5.2	13.8	9.8
15- year amortizing fixed-rate	0.6	2.5	<0.1	5.1	<0.1	8.4	0.6	0.6	2.7
ARMs/adjustable rate[4]	0.1	5.1	0.1	11.7	0.1	23.7	0.3	2.6	10.9
Interest-only[5]	<0.1	10.7	0.1	17.2	0.2	30.0	0.3	0.5	24.4
Other[6]	<0.1	2.8	<0.1	4.6	<0.1	7.0	<0.1	1.9	4.7
Total FICO scores of 620 to 659	2.9	4.7	1.5	9.7	2.0	19.5	6.4	10.7	9.0
FICO scores of ≥ 660:									
20 and 30- year or more amortizing fixed-rate	40.1	1.1	17.0	2.9	9.8	9.4	66.9	3.3	2.6
15- year amortizing fixed-rate	14.7	0.4	1.0	0.9	0.3	2.3	16.0	0.1	0.5
ARMs/adjustable rate[4]	3.0	1.0	0.7	4.6	0.5	15.4	4.2	0.6	3.4
Interest-only[5]	0.4	4.2	0.7	9.7	1.6	20.6	2.7	0.2	15.0
Other[6]	<0.1	1.9	0.1	1.5	0.1	2.5	0.2	0.7	1.9
	58.2	0.9	19.5	3.0	12.3	10.6	90.0	2.3	2.3

Total FICO scores ≥ 660									
Total FICO scores not available	0.3	5.4	0.1	11.6	0.1	23.0	0.5	6.5	8.9
All FICO scores:									
20 and 30- year or more amortizing fixed-rate	43.4	1.7	19.1	4.0	12.6	11.8	75.1	4.9	3.7
15- year amortizing fixed-rate	15.4	0.6	1.1	1.2	0.3	2.8	16.8	0.1	0.6
ARMs/adjustable rate(4)	3.3	1.6	0.8	5.8	0.6	17.1	4.7	1.2	4.3
Interest-only(5)	0.5	4.9	0.8	10.7	1.8	22.0	3.1	0.2	16.3
Other(6)	0.1	9.6	0.1	6.8	0.1	10.2	0.3	7.9	8.9
Total single-family credit guarantee portfolio(7)	62.7 %	1.4 %	21.9 %	4.1 %	15.4 %	12.7 %	100.0 %	3.4 %	3.3 %
By Region(8)									
FICO scores < 620:									
North Central	0.2 %	5.9 %	0.2 %	10.4 %	0.2 %	18.1 %	0.6 %	14.8 %	10.5 %
Northeast	0.5	10.4	0.2	19.7	0.2	30.6	0.9	16.6	16.1
Southeast	0.2	7.9	0.2	13.5	0.3	27.7	0.7	16.0	14.5
Southwest	0.2	5.2	0.1	11.2	<0.1	19.5	0.3	10.6	7.4
West	0.2	4.9	0.1	10.2	0.3	17.3	0.6	18.0	10.1
Total FICO scores < 620	1.3	7.2	0.8	13.4	1.0	23.2	3.1	15.3	12.2
FICO scores of 620 to 659:									
North Central	0.5	3.9	0.3	7.7	0.4	14.5	1.2	10.2	7.5
Northeast	0.9	6.6	0.4	14.4	0.4	25.8	1.7	11.1	11.5
Southeast	0.5	5.4	0.3	10.2	0.5	23.9	1.3	11.0	11.3
Southwest	0.5	3.3	0.2	7.6	0.1	14.5	0.8	6.8	4.8
West	0.5	3.4	0.3	8.0	0.6	16.1	1.4	14.2	8.3
Total FICO scores of 620 to 659	2.9	4.7	1.5	9.7	2.0	19.5	6.4	10.7	9.0
FICO scores of ≥ 660:									
North Central	9.4	0.7	4.4	2.2	2.3	7.0	16.1	1.9	1.7
Northeast	15.9	1.2	5.2	4.6	1.9	14.2	23.0	2.0	2.6
Southeast	8.3	1.3	3.5	3.3	3.0	14.2	14.8	2.5	3.7
Southwest	8.0	0.7	2.1	2.0	0.3	5.9	10.4	1.1	1.0
West	16.6	0.6	4.3	2.8	4.8	9.1	25.7	3.4	2.3
Total FICO scores ≥ 660	58.2	0.9	19.5	3.0	12.3	10.6	90.0	2.3	2.3
Total FICO scores not available	0.3	5.4	0.1	11.6	0.1	23.0	0.5	6.5	8.9
All FICO scores:									
North Central	10.1	1.0	4.8	3.0	3.0	9.0	17.9	3.0	2.5

Northeast	17.1	1.9	5.9	6.1	2.5	17.6	25.5	3.3	3.8
Southeast	9.1	1.9	4.0	4.5	3.8	16.7	16.9	4.0	5.0
Southwest	8.9	1.1	2.5	3.2	0.4	9.3	11.8	2.1	1.7
West	17.5	0.8	4.7	3.3	5.7	10.2	27.9	4.4	2.8
Total single-family credit guarantee portfolio(7)	62.7 %	1.4 %	21.9 %	4.1 %	15.4 %	12.7 %	100.0 %	3.4 %	3.3 %

(1) The current LTV ratios are our estimates. See endnote (3) to "Table 38 — Characteristics of the Single-Family Credit Guarantee Portfolio" for further information.
(2) Based on UPB of the single-family credit guarantee portfolio.
(3) See endnote (2) to "Table 49 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio" for further information.
(4) Includes balloon/reset and option ARM mortgage loans.
(5) Includes both fixed rate and adjustable rate loans. The percentages of interest-only loans which have been modified at period end reflect that a number of these loans have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.

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(6) Consist of FHA/VA and other government guaranteed mortgages.

(7) The total of all FICO scores categories may not sum due to the inclusion of loans where FICO scores are not available in the respective totals for all loans. See endnote (5) to "Table 38 — Characteristics of the Single-Family Credit Guarantee Portfolio" for further information about our presentation of FICO scores.

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

The table below presents foreclosure and short sale rate information for loans in our single-family credit guarantee portfolio based on year of origination.

Table 51 — Single-Family Credit Guarantee Portfolio Foreclosure and Short Sale Rates

	As of December 31, 2013		2012	2011
	Percentage of Portfolio	Foreclosure and Short Sale Rate[1]	Foreclosure and Short Sale Rate[1]	Foreclosure and Short Sale Rate[1]
Year of Origination[2]:				
2013	16 %	— %	N/A	N/A
2012	16	—	— %	N/A
2011	8	0.03	0.01	— %
2010	7	0.11	0.05	0.01
2009	7	0.34	0.23	0.11
Subtotal — New single-family book	54	0.12	0.09	0.05
HARP and other relief refinance loans[2]	21	0.56	0.36	0.20
2005-2008 Legacy single-family book	16	8.03	6.87	5.35
Pre-2005 Legacy single-family book[3]	9	1.34	1.20	1.04
Total	100 %			

(1) Calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, during the period from origination to December 31, 2013, 2012, and 2011, respectively, divided by the number of loans originated in that year that were acquired in our single-family credit guarantee portfolio.

(2) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2013). All other refinance loans are presented in the year that the refinancing occurred. Prior period information has been revised to conform with the current period presentation.

(3) The foreclosure and short sale rate presented for the Pre-2005 Legacy single-family book represents the rate associated with loans originated in 2000 through 2004.

Loans originated from 2005 through 2008 have experienced higher foreclosure and short sale rates than loans originated in other years. We attribute this performance to a number of factors, including: (a) the expansion of credit terms under which loans were underwritten during these years; (b) an increase in the origination and our purchase of interest-only and Alt-A mortgage products in these years; and (c) an environment of persistently high unemployment, decreasing home sales, and broadly declining home prices in the periods following the loans' origination.

Multifamily Mortgage Credit Risk

To manage our multifamily mortgage portfolio credit risk, we focus on several key areas: (a) using prudent standards and processes with a pre-approval underwriting approach on the loans we purchase or guarantee; (b) selling the expected credit risk to private investors who hold the subordinated tranches in our multifamily K Certificate transactions; (c) portfolio diversification, particularly by product and geographical area; and (d) portfolio management activities, including loss mitigation and use of credit enhancements. We monitor the loan performance, the underlying

properties and a variety of mortgage loan characteristics that may affect the default experience on our multifamily mortgage portfolio, such as DSCR, LTV ratio, geographic location, payment type, and loan maturity. See “NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS” for information about loss mitigation activities that we have classified as TDRs and subsequent performance information of these loans. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for more information about the loans in our multifamily mortgage portfolio, including geographic concentrations of these loans.
The table below provides certain attributes of our multifamily mortgage portfolio at December 31, 2013 and 2012.

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Table 52 — Multifamily Mortgage Portfolio — by Attribute

	UPB at December 31, 2013	December 31, 2012	Delinquency Rate[1] at December 31, 2013	December 31, 2012
	(dollars in billions)			
Original LTV ratio				
Below 75%	$93.1	$ 87.6	0.06 %	0.04 %
75% to 80%	34.1	34.0	0.15	0.22
Above 80%	5.6	5.8	0.19	2.31
Total	$132.8	$ 127.4	0.09 %	0.19 %
Weighted average LTV ratio at origination	70 %	70 %		
Maturity Dates				
2013	N/A	$ 3.3	N/A	0.86 %
2014	$2.1	5.8	0.12 %	—
2015	6.9	9.8	0.05	0.53
2016	11.2	13.0	—	0.05
2017	10.0	10.9	0.43	0.02
2018	17.0	17.3	—	—
Beyond 2018	85.6	67.3	0.08	0.24
Total	$132.8	$ 127.4	0.09 %	0.19 %
Year of Acquisition or Guarantee[2]				
2006 and prior	$19.1	$ 25.2	— %	0.17 %
2007	15.1	17.8	0.54	0.86
2008	13.2	16.6	0.18	0.30
2009	11.2	12.2	—	—
2010	10.9	12.0	0.13	—
2011	15.9	17.0	—	—
2012	23.7	26.6	—	—
2013	23.7	N/A	—	N/A
Total	$132.8	$ 127.4	0.09 %	0.19 %
Current Loan Size				
Above $25 million	$50.6	$ 48.5	0.05 %	0.06 %
Above $5 million to $25 million	73.2	70.0	0.11	0.26
$5 million and below	9.0	8.9	0.14	0.37
Total	$132.8	$ 127.4	0.09 %	0.19 %
Legal Structure				
Unsecuritized loans	$59.2	$ 76.6	0.08 %	0.08 %
K Certificates	59.8	37.2	0.07	0.07
Other Freddie Mac mortgage-related securities	4.8	4.2	0.59	3.20
Other guarantee commitments	9.0	9.4	—	0.13
Total	$132.8	$ 127.4	0.09 %	0.19 %
Credit Enhancement				
Credit-enhanced	$70.2	$ 47.8	0.11 %	0.36 %
Non-credit-enhanced	62.6	79.6	0.07	0.10
Total	$132.8	$ 127.4	0.09 %	0.19 %
Payment Type				
Interest-only	$20.1	$ 22.8	0.14 %	0.05 %

Partial interest-only[3]	32.6	29.8	—	0.05
Amortizing	80.1	74.8	0.12	0.30
Total	$132.8	$ 127.4	0.09 %	0.19 %

(1) Our delinquency rates for multifamily loans are positively affected to the extent we have been successful in working with troubled borrowers to modify their loans prior to becoming delinquent or by providing temporary relief through short-term loan extensions or forbearance agreements. See “Multifamily Delinquencies” below for more information about our multifamily delinquency rates.

(2) Based on either: (a) the year of acquisition, for loans recorded on our consolidated balance sheets; or (b) the year that we issued our guarantee, for the remaining loans in our multifamily mortgage portfolio.

(3) Represent loans that have an interest-only period and where the borrower’s payments were interest-only at the respective reporting date. Loans which have reached the end of their interest-only period by the respective reporting date have converted to, and are classified as, amortizing loans.

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Multifamily Product Types

Most multifamily loans require a significant lump sum (i.e., balloon) payment of unpaid principal at maturity. Therefore, the borrower's potential inability to refinance or pay off the loan at maturity is a primary concern for us. Borrowers may be less able to refinance their obligations during periods of rising interest rates, which could lead to default if the borrower is unable to find affordable refinancing before the loan matures. Of the $132.8 billion in UPB of our multifamily mortgage portfolio as of December 31, 2013, approximately 7% will mature during 2014 and 2015, and the remaining 93% will mature in 2016 and beyond.

Our multifamily mortgage portfolio consists of product types that are categorized based on loan terms. Multifamily loans may: (a) be amortizing or interest-only (for the full term or a portion thereof); and (b) have a fixed or variable rate of interest. Our multifamily loans generally have shorter terms than single-family mortgages and typically have balloon maturities ranging from five to ten years. At December 31, 2013 and 2012, approximately 60% and 59%, respectively, of our multifamily mortgage portfolio consisted of amortizing loans, which reduce our credit exposure over time since the UPB of the loan declines with each mortgage payment. In addition, as of December 31, 2013 and 2012, approximately 25% and 23%, respectively, of our multifamily mortgage portfolio consisted of partial interest-only loans, which after a defined period of time will begin to include amortization of principal.

Multifamily Credit Enhancements

Our primary business model in the Multifamily segment is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. With this model, we have securitized $71.5 billion in UPB of multifamily loans between 2009 and 2013 and have attracted private capital to the multifamily market from investors who purchase subordinated securities that we do not issue or guarantee. These securities are backed by loans that are sourced by our seller/servicers and directly underwritten by us. Our K Certificate transactions are structured such that private investors (who hold unguaranteed subordinated securities) are the first to absorb losses on the underlying loans and the amount of subordination to the guaranteed certificates is set at a level that we believe is sufficient to cover the expected credit losses on the loans. As a result, we believe private investors will absorb the expected credit risk in these transactions and thereby reduce the loss exposure to us and U.S. taxpayers. As of December 31, 2013, we have not realized any credit losses on our K Certificates. At December 31, 2013 and 2012, the UPB of K Certificates with subordination coverage was $59.3 billion and $36.7 billion, respectively, and the average subordination coverage on these securities was 18% and 17%, respectively. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for additional information about credit protections and other forms of credit enhancements covering loans in our multifamily mortgage portfolio.

Multifamily Delinquencies

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

There were 16 and 33 delinquent loans in our multifamily mortgage portfolio at December 31, 2013 and 2012, respectively. Improvements in market fundamentals and multifamily property values led to improved delinquency rates for most major participants in the market during 2013. Our multifamily mortgage portfolio delinquency rate of 0.09% and 0.19% at December 31, 2013 and 2012, respectively, reflects continued strong portfolio performance and improving market fundamentals. Our delinquency rate for credit-enhanced loans was 0.11% and 0.36% at December 31, 2013 and 2012, respectively, and for non-credit-enhanced loans was 0.07% and 0.10% at December 31, 2013 and 2012, respectively. As of December 31, 2013, approximately 62% of our multifamily loans that were two or more monthly payments past due, measured on a UPB basis, had credit enhancements that we currently believe will mitigate our expected losses on those loans and guarantees.

Non-Performing Assets

Non-performing assets consist of non-performing loans and REO assets, net. We place non-performing loans on non-accrual status when we believe the collectability of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of

cash payments.
We classify TDRs as non-performing loans. TDRs represent those loans where we have granted a concession to a borrower that is experiencing financial difficulties. Loans that have been classified as TDRs remain categorized as non-performing throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status. TDRs include HAMP and non-HAMP loan modifications, as well as loans in modification trial periods and loans subject to certain other loss mitigation actions. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” and “NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS” for further information about our TDRs.

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The table below provides detail on non-performing loans and REO assets on our consolidated balance sheets and non-performing loans underlying our financial guarantees.

Table 53 — Non-Performing Assets[1]

	December 31, 2013	2012	2011	2010	2009
	(dollars in millions)				
Non-performing mortgage loans — on balance sheet:					
Single-family TDRs:					
Less than three monthly payments past due	$78,033	$65,784	$44,440	$26,612	$711
Seriously delinquent	19,573	22,008	11,639	3,144	477
Multifamily TDRs[2]	712	815	893	911	229
Total TDRs	98,318	88,607	56,972	30,667	1,417
Other seriously delinquent single-family loans[3]	23,280	39,711	63,205	84,272	12,106
Other multifamily loans[4]	590	1,411	1,819	1,750	1,196
Total non-performing mortgage loans — on balance sheet	122,188	129,729	121,996	116,689	14,719
Non-performing mortgage loans — off-balance sheet:					
Single-family loans	871	1,096	1,230	1,450	85,395
Multifamily loans	381	474	246	198	178
Total non-performing mortgage loans — off-balance sheet	1,252	1,570	1,476	1,648	85,573
Real estate owned, net	4,551	4,378	5,680	7,068	4,692
Total non-performing assets	$127,991	$135,677	$129,152	$125,405	$104,984
Loan loss reserves as a percentage of our non-performing mortgage loans	20.0 %	23.5 %	32.0 %	33.7 %	33.8 %
Total non-performing assets as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities	7.1 %	7.5 %	6.8 %	6.4 %	5.2 %

(1) Mortgage loan amounts are based on UPB and REO, net is based on carrying values.

(2) As of December 31, 2013, 2012, 2011, 2010, and 2009, approximately $0.7 billion, $0.8 billion, $0.9 billion, $0.9 billion, and $0.3 billion of these amounts were current, respectively.

(3) Represents loans recognized by us on our consolidated balance sheets, including loans removed from PC trusts due to the borrower's serious delinquency.

(4) Of these amounts, $0.6 billion, $1.4 billion, $1.8 billion, $1.6 billion, and $1.1 billion of UPB were current at December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

Our non-performing assets declined to $128.0 billion as of December 31, 2013, from $135.7 billion as of December 31, 2012. We expect our non-performing assets, including loans deemed to be TDRs, to remain at elevated levels in 2014. Our loan loss reserves as a percentage of our non-performing mortgage loans also declined at December 31, 2013 compared to December 31, 2012 primarily due to a decline in our loan loss reserves. See "Credit Loss Performance — Loan Loss Reserves" for more information about the decline in our loan loss reserves.

The table below provides detail by region for REO activity. Our REO activity consists almost entirely of single-family residential properties. See "Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations" for information about regional serious delinquency rates of loans in our single-family credit guarantee portfolio.

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Table 54 — REO Activity by Region[1]

	December 31,		
	2013	2012	2011
	(number of properties)		
REO Inventory			
Single-family:			
Inventory, beginning of year	49,071	60,535	72,079
Acquisitions, by region:			
Northeast	10,023	7,352	6,969
Southeast	23,827	23,906	23,182
North Central	20,834	27,586	26,255
Southwest	6,996	10,197	12,858
West	9,001	13,771	29,367
Total single-family acquisitions	70,681	82,812	98,631
Dispositions, by region:			
Northeast	(7,071)	(7,544)	(8,883)
Southeast	(20,956)	(25,803)	(28,298)
North Central	(25,946)	(28,137)	(25,970)
Southwest	(8,395)	(12,134)	(13,098)
West	(10,077)	(20,658)	(33,926)
Total single-family dispositions	(72,445)	(94,276)	(110,175)
Inventory, end of year	47,307	49,071	60,535
Multifamily:			
Inventory, beginning of year	6	20	14
Acquisitions	4	6	25
Dispositions	(9)	(20)	(19)
Inventory, end of year	1	6	20
Total inventory, end of year	47,308	49,077	60,555

(1) See endnote (8) to “Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for a description of these regions.

Our REO inventory (measured in number of properties) declined 4% from December 31, 2012 to December 31, 2013 primarily due to lower foreclosure activity in 2013 as a result of our loss mitigation efforts (e.g., a significant number of borrowers completing short sales rather than foreclosures) and a declining amount of delinquent loans. We expect our REO acquisitions and dispositions to remain at elevated levels in the near term, as we have a large REO inventory and a significant number of seriously delinquent loans in our single-family credit guarantee portfolio.

The volume of our single-family REO acquisitions in recent periods has been significantly affected by the lengthening of the foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying property to transition to REO. We expect that the length of the foreclosure process will continue to remain above historical levels, particularly in states that require a judicial foreclosure process. Foreclosures generally take longer to complete in states where judicial foreclosures (those conducted under the supervision of a court) are required than in states where non-judicial foreclosures are permitted. In addition, our expanded loss mitigation efforts are providing borrowers with viable alternatives to foreclosure. As a result of the continued high level of loss mitigation efforts, fewer of our loans are proceeding through foreclosure to REO acquisition.

Our single-family REO acquisitions in 2013 were most significant in the states of Florida, Illinois, Michigan, and Ohio, which collectively represented 40% of total single-family REO acquisitions during that period, based on the number of properties, and comprised 42% of our total single-family REO property inventory at December 31, 2013.

We experienced an increase in REO acquisitions during 2013 compared to 2012 in the Northeast region and REO acquisitions remained high in the Southeast region. The high REO acquisition volume in these regions was primarily due to higher foreclosure volume in Maryland, Pennsylvania, and Florida. The North Central region had the largest number of REO properties and comprised 33% and 42% of our REO property inventory, based on the number of properties, as of December 31, 2013 and 2012, respectively. This region generally has experienced more challenging economic conditions, includes a number of states with longer foreclosure timelines due to the local laws and foreclosure process, and has housing markets with generally lower demand and lower home values than in other regions. See "NOTE 6: REAL ESTATE OWNED" for more information on our REO properties.

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Our REO acquisition activity is disproportionately high for certain types of loans in our single-family credit guarantee portfolio, including loans with certain higher-risk characteristics. For example, the percentage of interest-only and Alt-A loans in our single-family credit guarantee portfolio, based on UPB, was approximately 2% and 3%, respectively, at December 31, 2013. The percentage of our REO acquisitions in 2013 that had been financed by either of these loan types represented approximately 24% of our total REO acquisitions, based on loan amount prior to acquisition. In addition, loans from our 2005-2008 Legacy single-family book comprised approximately 78% of our REO acquisition activity during 2013.

We continue to experience significant variability in the average time for foreclosure by state. For example, during 2013, the average time for completion of foreclosures associated with loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, ranged from 391 days in Michigan to 1,231 days in Florida (as measured from the date of the last scheduled payment made by the borrower).

We are unable to market a significant portion of our REO property inventory at any given time, which can increase the average holding period of our inventory. For example, some jurisdictions require a period of time after foreclosure during which the borrower may reclaim the property. During this period, we generally are not able to sell the property. As of both December 31, 2013 and 2012, the percentage of our single-family REO property inventory that had been held for sale longer than one year was 5.8%. Though it varied significantly in different states, the average holding period of our single-family REO properties, excluding any post-foreclosure period during which borrowers may reclaim a foreclosed property, was 209 days and 200 days, for our REO dispositions during 2013 and 2012, respectively.

The table below provides information about our REO properties at December 31, 2013 and 2012.

Table 55 — Single-Family REO Property Status

	As of December 31,			
	2013		2012	
	(Percent of properties)			
Unable to market:				
Redemption period[1]	11	%	15	%
Occupied (waiting for eviction or vacancy)	18		18	
Other[2]	4		3	
Subtotal — unable to market	33		36	
Pre-listing[3]	23		23	
Pending settlement for sale[4]	14		14	
Available for sale	30		27	
Total	100	%	100	%

(1) Consists of properties located in jurisdictions that require a period of time after foreclosure during which the borrower may reclaim the property.

(2) Includes properties where marketing is on hold, including where we are involved in litigation or other legal and regulatory issues concerning the property.

(3) Consists of properties that are not being actively marketed because we are evaluating the property condition and preparing the property for sale.

(4) Consists of properties where we have an executed sales contract and settlement has not yet occurred.

As shown in the table above, a significant portion of the properties in our REO inventory are unable to be marketed because they remain occupied or are located in states with a redemption period, particularly in the states of Illinois, Michigan, and Minnesota. The percentage of our REO inventory that is in the pre-listing category also remained high at December 31, 2013, primarily because many of these properties are under repair or are otherwise being prepared for sale.

Credit Loss Performance

Many loans that are seriously delinquent, or in foreclosure, result in credit losses. The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and underlying our non-consolidated mortgage-related financial guarantees.

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Table 56 — Credit Loss Performance

	December 31, 2013	2012	2011
	(dollars in millions)		
REO			
REO balances, net:			
Single-family	$4,541	$4,314	$5,548
Multifamily	10	64	132
Total	$4,551	$4,378	$5,680
REO operations (income) expense:			
Single-family	$(124)	$62	$596
Multifamily	(16)	(3)	(11)
Total	$(140)	$59	$585
Charge-offs			
Single-family:			
Charge-offs, gross(1) (including $9.0 billion, $13.5 billion, and $14.7 billion relating to loan loss reserves, respectively)	$9,225	$13,825	$15,149
Recoveries(2)	(4,313)	(2,262)	(2,764)
Single-family, net	$4,912	$11,563	$12,385
Multifamily:			
Charge-offs, gross(1) (including $7 million, $36 million, and $75 million relating to loan loss reserves, respectively)	$29	$39	$83
Recoveries(2)	(1)	(2)	(1)
Multifamily, net	$28	$37	$82
Total Charge-offs:			
Charge-offs, gross(1) (including $9.0 billion, $13.6 billion, and $14.8 billion relating to loan loss reserves, respectively)	$9,254	$13,864	$15,232
Recoveries(2)	(4,314)	(2,264)	(2,765)
Total Charge-offs, net	$4,940	$11,600	$12,467
Credit Losses(3)			
Single-family	$4,788	$11,625	$12,981
Multifamily	12	34	71
Total	$4,800	$11,659	$13,052
Total (in bps)(4)	26.7	63.8	68.1

(1) Represent the carrying amount of a loan that has been discharged in order to remove the loan from our consolidated balance sheet at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of comprehensive income. Charge-offs primarily result from foreclosure transfers and short sales and are generally calculated as the recorded investment of a loan at the date it is discharged less the estimated value in final disposition or actual net sales in a short sale. Multifamily charge-offs also include cumulative fair value losses recognized through the date of foreclosure for loans which we elected to carry at fair value at the time of our purchase.

(2) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where: (a) a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements; or (b) we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a foreclosure transfer or a foreclosure alternative. Includes $2.8 billion, $0.7 billion, and $1.0 billion in 2013, 2012, and 2011, respectively, related to repurchase requests from our seller/servicers (including $2.1 billion in 2013 and $0, in both 2012 and 2011, respectively, related to settlement

agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments).

(3) Excludes foregone interest on non-performing loans, which reduces our net interest income but is not reflected in our total credit losses. In addition, excludes certain other market-based credit losses, including those: (a) incurred on our investments in mortgage loans and mortgage-related securities; and (b) recognized in our consolidated statements of comprehensive income.

(4) Calculated as credit losses divided by the average carrying value of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of REMICs and Other Structured Securities that are backed by Ginnie Mae Certificates.

Our credit losses are generally measured at the conclusion of the loan and related collateral resolution process. Our expenses associated with home retention actions (e.g., loan modifications) are generally not reflected in our credit losses. There is a significant lag in time from the start of loan workout activities by our servicers on problem loans (e.g., seriously delinquent loans) to the final resolution of those loans by the completion of foreclosures (and subsequent REO sales) and foreclosure alternatives (e.g., short sales). Single-family charge-offs, gross, for 2013 and 2012, were $9.2 billion and $13.8 billion, respectively, and were associated with approximately $21.2 billion and $28.1 billion in UPB of loans for 2013 and 2012. Our single-family charge-offs, gross, declined in 2013, compared to 2012, primarily due to improvements in home prices in recent periods in many of the areas in which we have had significant foreclosure and short sale activity. The decline in single-family charge-offs, net, in 2013 also includes recoveries of: (a) $2.1 billion related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments; and (b) $0.2 billion related

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to an agreement to resolve outstanding and future primary mortgage insurance claims on certain loans with one of our mortgage insurers.

To a lesser extent, charge-offs also declined due to slowing volumes of foreclosures in our single-family guarantee portfolio since fewer loans transitioned to foreclosure in 2013, compared to 2012. We expect our charge-offs and credit losses to continue to remain elevated in 2014 due to the large number of single-family non-performing loans that will likely be resolved.

Our single-family credit losses during 2013 were high in California (since it represents a significant portion of our single-family credit guarantee portfolio) and credit losses continued to be disproportionately high in Florida, Nevada, and Arizona. Collectively, these four states comprised approximately 47% of our total credit losses in 2013. We estimate that these states had the largest cumulative declines in home prices during the housing crisis that began in 2006, as measured by our home price index. Our 2005-2008 Legacy single-family book comprised approximately 16% of our single-family credit guarantee portfolio, based on UPB at December 31, 2013; however, these loans accounted for approximately 81% of our credit losses during 2013. In addition, although Alt-A loans comprised approximately 3% of our single-family credit guarantee portfolio at December 31, 2013, these loans accounted for approximately 26% of our credit losses during 2013. At December 31, 2013, loans in states with a judicial foreclosure process comprised 40% of our single-family credit guarantee portfolio, based on UPB, while loans in these states contributed to approximately 61% of our credit losses recognized in 2013. We expect the portion of our credit losses related to loans in states with judicial foreclosure processes will remain high in the near term as the substantial backlog of loans awaiting court proceedings in those states transitions to REO or other loss events.

The table below provides loss severity information for loans in our single-family credit guarantee portfolio.

Table 57 — Severity Ratios for Single-Family Loans

	For the Three Months Ended				
	12/31/2013	9/30/2013	6/30/2013	3/31/2013	12/31/2012
REO disposition severity ratio:[1]					
Florida	40.4 %	40.5 %	42.9 %	44.5 %	46.2 %
Illinois	43.4	43.7	47.2	49.9	50.1
California	24.4	28.7	30.2	35.2	38.1
Nevada	36.1	36.4	37.9	44.1	49.0
Maryland	37.4	38.0	39.0	42.3	47.8
Total U.S	35.8	34.9	35.8	39.1	39.5
Short sale severity ratio[2]	32.5	34.5	36.5	38.0	38.6

(1) States presented represent the five states where our credit losses were greatest during 2013. Calculated as the amount of our losses recorded on disposition of REO properties during the respective quarterly period, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate UPB of the related loans. The amount of losses recognized on disposition of the properties is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties, net of selling expenses.

(2) Calculated as the amount of our losses recorded on short sales during the respective quarterly period divided by the aggregate UPB of the related loans. The amount of losses recognized on short sales is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds, net of selling expenses.

The table below provides detail by region for charge-offs and recoveries.

Table 58 — Single-Family Charge-offs and Recoveries by Region[1]

	Year Ended December 31,								
	2013			2012			2011		
	Charge-offs, gross	Recoveries[2]	Charge-offs, net	Charge-offs, gross	Recoveries[2]	Charge-offs, net	Charge-offs, gross	Recoveries[2]	Charge-offs, net
	(in millions)								
Northeast	$1,357	$ (656)	$ 701	$1,180	$ (249)	$ 931	$1,033	$ (226)	$ 807

Southeast	3,015	(1,331)	1,684	3,530	(694)	2,836	3,210	(693)	2,517
North Central	1,870	(810)	1,060	2,726	(526)	2,200	2,502	(615)	1,887
Southwest	394	(245)	149	647	(160)	487	777	(243)	534
West	2,589	(1,271)	1,318	5,742	(633)	5,109	7,627	(987)	6,640
Total	$9,225	$ (4,313)	$ 4,912	$13,825	$ (2,262)	$ 11,563	$15,149	$ (2,764)	$ 12,385

(1) See endnote (8) to “Table 50 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for a description of these regions.
(2) See endnote (2) to "Table 56 — Credit Loss Performance" for information about our recoveries of charge-offs.

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As shown in the table above, our charge-offs, net, declined during 2013 compared to 2012 in all regions of the U.S., and benefited from settlement agreements in 2013 with several of our sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. We continued to experience high foreclosure volume in the North Central region during 2013, particularly in Illinois, Michigan, and Ohio. In addition, the volume of foreclosures and related charge-offs increased in 2013 compared to 2012 in the Southeast region, which was due to significant foreclosure activity in the state of Florida. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for additional information about our credit losses.

Loan Loss Reserves

We maintain mortgage-related loan loss reserves at levels we believe appropriate to absorb probable incurred losses on mortgage loans held-for-investment on our consolidated balance sheets and those underlying Freddie Mac mortgage-related securities and other guarantee commitments. Determining the loan loss reserves is complex and requires significant management judgment about matters that involve a high degree of subjectivity. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” for information on our accounting policies for allowance for loan losses and reserve for guarantee losses and impaired loans.

The table below summarizes our loan loss reserves activity for held-for-investment mortgage loans recognized on our consolidated balance sheets and underlying Freddie Mac mortgage-related securities and other guarantee commitments, in total.

Table 59 — Loan Loss Reserves Activity[1]

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions)				
Total loan loss reserves:					
Beginning balance	$30,890	$39,461	$39,926	$33,857	$15,618
Adjustments to beginning balance[2]	—	—	—	(186)	—
Provision (benefit) for credit losses	(2,465)	1,890	10,702	17,218	29,530
Charge-offs, gross[3]	(9,002)	(13,556)	(14,810)	(16,322)	(9,402)
Recoveries[4]	4,314	2,264	2,765	3,363	2,088
Transfers, net[5]	992	831	878	1,996	(3,977)
Ending balance	$24,729	$30,890	$39,461	$39,926	$33,857
Components of loan loss reserves:					
Single-family	$24,578	$30,508	$38,916	$39,098	$33,026
Multifamily	$151	$382	$545	$828	$831
Total loan loss reserve, as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities	1.37%	1.71%	2.08%	2.03%	1.69%

(1) Consists of reserves for loans held-for-investment and those underlying Freddie Mac mortgage-related securities and other guarantee commitments.

(2) Adjustments relate to the adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs.

(3) Charge-offs related to loan loss reserves represent the amount of a loan that has been discharged to remove the loan from our consolidated balance sheet principally due to either a foreclosure transfer or a short sale. Charge-offs exclude $252 million, $308 million, $422 million, $528 million, and $280 million, for the years ended December 31, 2013, 2012, 2011, 2010, and 2009, respectively, related to: (a) amounts recorded as losses on loans purchased within other expenses on our consolidated statements of comprehensive income, which relate to certain loans purchased under financial guarantees; or (b) cumulative fair value losses recognized through the date of foreclosure for Multifamily loans which we elected to carry at fair value at the time of our purchase.

(4) See endnote (2) to "Table 56 — Credit Loss Performance" for information about our recoveries of charge-offs.

(5) Consist primarily of: (a) amounts related to settlement agreements with certain sellers where the transfer relates to recoveries received under these agreements to compensate us for previously incurred and recognized losses; (b) reclassified single-family reserves related to our removal of loans previously held by consolidated trusts; and (c) net amounts attributable to recapitalization of past due interest on modified mortgage loans.

Our single-family loan loss reserves declined from $30.5 billion at December 31, 2012 to $24.6 billion at December 31, 2013, reflecting continued high levels of loan charge-offs compared to levels before 2009. This decline was also due to improvements in borrower payment performance and lower severity ratios for REO dispositions and short sale transactions largely resulting from the improvements in home prices in most areas during the period.

In recent periods, including 2013, the portion of our loan loss reserves attributable to individually impaired loans increased while the portion of our loan loss reserves determined on a collective basis declined. Our loan loss reserves attributable to individually impaired loans represent 75% of our loan loss reserves at December 31, 2013. This reflects a significant increase in TDRs over the past three years and the reserves associated with these loans largely reflect the concessions we have provided to the borrowers at the point of loan modification. The majority of these modified loans were current and performing at December 31, 2013. Although the housing market continued to significantly improve in many geographic areas, we expect that our loan loss reserves may remain elevated for an extended period because: (a) a significant

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portion of our reserves are associated with loans classified as individually impaired (e.g., modified loans) that are less than three months past due, and we are required to maintain a loss reserve on such loans until they are fully repaid or complete a short sale or foreclosure; and (b) the resolution of problem loans takes considerable time, often several years in the case of foreclosure.

As of December 31, 2013 and 2012, the recorded investment of individually impaired single-family mortgage loans was $98.1 billion and $89.3 billion, respectively, and the loan loss reserves associated with these loans were $18.6 billion and $17.9 billion, respectively. Our loan loss reserve associated with individually impaired single-family loans as a percentage of the total recorded investment of these loans was 19% and 20% of the balance as of December 31, 2013 and 2012, respectively. Our loan loss reserve associated with collectively evaluated single-family loans as a percentage of the total recorded investment of these loans was 0.4% and 0.8% of the balance as of December 31, 2013 and 2012, respectively. See "Table 4.4 — Net Investment in Mortgage Loans" for information about collectively evaluated and individually evaluated loans on our consolidated balance sheets. See "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS" for additional information about our impaired loans. See "CONSOLIDATED RESULTS OF OPERATIONS — Benefit (Provision) for Credit Losses," for a discussion of our benefit (provision) for credit losses.

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

Table 60 — Single-Family Impaired Loans with Specific Reserve Recorded

	2013		2012	
	# of Loans	Amount	# of Loans	Amount
	(dollars in millions)			
TDRs (recorded investment):				
TDRs, at January 1,	449,145	$83,484	252,749	$53,494
New additions	129,428	20,234	226,214	35,816
Repayments	(29,877)	(5,074)	(10,442)	(2,070)
Loss events[(1)]	(34,199)	(6,139)	(19,376)	(3,756)
TDRs, at December 31,	514,497	92,505	449,145	83,484
Other (recorded investment)[(2)]	13,790	1,195	18,416	1,672
Total impaired loans with specific reserve	528,287	93,700	467,561	85,156
Total allowance for loan losses of individually impaired single-family loans		(18,554)		(17,935)
Net investment, at December 31,		$75,146		$67,221

(1) Foreclosure transfers or foreclosure alternatives, such as a deed in lieu of foreclosure or short sale transaction.
(2) Loans impaired upon purchase as of December 31.

Credit Risk Sensitivity

Under a 2005 agreement with FHFA, then OFHEO, we are required to disclose the estimated increase in the NPV of future expected credit losses for our single-family credit guarantee portfolio over a ten year period as the result of an immediate 5% decline in home prices nationwide, followed by a stabilization period and return to the base case. This sensitivity analysis is hypothetical and may not be indicative of our actual results. We do not use this analysis for determination of our reported results under GAAP. The estimate of our portfolio's credit sensitivity to a 5% home price decline (with this scenario's assumptions) has decreased during 2013, which we believe is primarily due to the combination of improvement in home prices in most of the U.S. as well as the decline in our 2005-2008 Legacy single-family book.

The table below presents the estimated credit loss sensitivity of our single-family credit guarantee portfolio, based on assumptions required by FHFA, both before and after consideration of credit enhancements, measured at the end of the last five quarterly periods.

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Table 61 — Single-Family Credit Loss Sensitivity

	Before Receipt of Credit Enhancements[1]		After Receipt of Credit Enhancements[2]	
	NPV[3]	NPV Ratio[4]	NPV[3]	NPV Ratio[4]
	(dollars in millions, ratios in bps)			
At:				
December 31, 2013	$3,931	23.8	$3,628	21.9
September 30, 2013	$4,059	24.6	$3,734	22.6
June 30, 2013	$4,000	24.3	$3,663	22.2
March 31, 2013	$4,961	30.3	$4,575	27.9
December 31, 2012	$6,356	38.8	$5,908	36.1

(1) Assumes that none of the credit enhancements currently covering our mortgage loans have any mitigating effect on our credit losses.

(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.

(3) Based on the single-family credit guarantee portfolio, excluding REMICs and Other Structured Securities backed by Ginnie Mae Certificates.

(4) Calculated as the ratio of NPV of increase in credit losses to the single-family credit guarantee portfolio, defined in note (3) above.

Institutional Credit Risk

The concentration of our exposure to our counterparties increased beginning in 2008 due to industry consolidation and counterparty failures. Many of our remaining counterparties were adversely affected in recent years by challenging market and economic conditions as well as the stress on their resources to meet increased regulatory requirements and oversight.

We continue to face challenges in reducing our risk concentrations with counterparties. Efforts we make to reduce exposure to financially weakened counterparties could further increase our exposure to other individual counterparties or increase concentration risk overall. The failure of any of our significant counterparties to meet their obligations to us could have a material adverse effect on our results of operations, financial condition, and our ability to conduct future business. For more information, see "RISK FACTORS — Competitive and Market Risks —We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our counterparties do not meet their obligations to us."

Single-family Mortgage Seller/Servicers

We acquire a significant portion of our single-family mortgage purchase volume from several large lenders, or seller/servicers. Our top 10 single-family seller/servicers provided approximately 64% of our single-family purchase volume during 2013. Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A. accounted for 17% and 13%, respectively, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during 2013.

We have contractual arrangements with our seller/servicers under which they agree to sell us mortgage loans, and represent and warrant that those loans meet specified eligibility and underwriting standards. In addition, our servicers represent and warrant to us that those loans will be serviced in accordance with our servicing contract. If we subsequently discover that the representations and warranties were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB, reimburse us for losses realized with respect to the loan after consideration of other recoveries, if any, and/or indemnify us. For certain servicing violations, we typically first issue a notice of defect and allow the servicer a period of time to correct the problem. If the servicing violation is not corrected, we then may issue a repurchase request. For breaches related to loans that have proceeded through foreclosure and REO sale or other workouts (e.g. short sales),

we will accept reimbursement for realized credit losses. For breaches related to other loans, we issue a repurchase request for the loan's UPB, plus interest and fees. We require a seller/servicer to repurchase a mortgage (or provide an alternative remedy) after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended pending a decision on the appeal.
We revised our representation and warranty framework for conventional loans purchased on or after January 1, 2013. We may face greater exposure to credit and other losses under this new framework since it relieves lenders of certain repurchase obligations in specific cases (such as for loans that perform for 36 consecutive months, with certain exclusions). The new framework does not affect seller/servicers' obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. For additional information, see "BUSINESS — Our Business Segments —Single-Family Guarantee Segment" and "Mortgage Credit Risk — Single-Family Mortgage Credit Risk — Single-Family Loan Workouts and the MHA Program — Relief Refinance Mortgage Initiative and Home Affordable Refinance Program."

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The table below provides a summary of our repurchase request (both seller and servicing related) activity for 2013, 2012, and 2011.

Table 62 — Repurchase Request Activity[1]

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Beginning balance	$3,028	$2,716	$3,807
Issuances	10,797	9,246	9,172
Collections[2]	(5,638)	(3,487)	(4,490)
Cancellations and other[3]	(5,996)	(5,447)	(5,773)
Ending balance	$2,191	$3,028	$2,716

(1) Amounts are based on the UPB of the loans associated with the repurchase requests. The balance as of December 31, 2013 includes: (a) $1.6 billion in UPB related to repurchase claims for violations of seller representations and warranties; and (b) $0.6 billion in UPB related to repurchase claims for violations of servicing guidelines. The balance as of December 31, 2013 excludes $0.3 billion in UPB related to notices of defect for servicing violations.

(2) Requests collected are based on the UPB of the loans associated with the repurchase requests, which in many cases is more than the amount of payments received for reimbursement of losses for requests associated with foreclosed mortgage loans, negotiated agreements, and other alternative remedies. Includes $2.1 billion during 2013 related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. For the years ended December 31, 2013, 2012, and 2011 approximately 23%, 35%, and 31% respectively, of the requests collected in each period were satisfied by reimbursement of losses associated with the request (excluding amounts related to settlement agreements).

(3) Consists primarily of those requests that were resolved by the servicer providing missing documentation or rescinded through a successful appeal of the request. Also includes other items that affect the UPB of the loan while the repurchase request is outstanding, such as payments made on the loan.

Our exposure to single-family mortgage seller/servicers has been high in recent years with respect to their repurchase obligations arising from breaches of representations and warranties made to us for loans they underwrote and sold to us, or that they service for us. FHFA set a goal for us (in the 2013 Conservatorship Scorecard) to complete our requests for remedies for breaches of seller representations and warranties related to pre-conservatorship loan activity. Although we resolved a significant amount of requests in 2013, including through negotiated agreements, the balance of repurchase requests outstanding remained high as of December 31, 2013 due to the increased claims issued to meet the Scorecard goal. During 2013, we recovered amounts from seller/servicers with respect to $5.6 billion in UPB of loans subject to our repurchase requests, including $2.1 billion related to settlement agreements with certain sellers (including nine of our largest sellers) to release specified loans from certain repurchase obligations in exchange for one-time cash payments. As a result, the UPB of loans subject to open repurchase requests with our largest seller/servicers has declined significantly. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers” for more information about these agreements. We did not enter into any such agreements during 2012 or 2011. In November 2013, FHFA announced that we had substantially achieved this 2013 Scorecard goal. Consequently, we believe that our repurchase request volumes with our sellers will likely decrease in 2014.

The UPB of loans subject to open repurchase requests (both seller and servicer related) decreased to $2.2 billion at December 31, 2013 from $3.0 billion at December 31, 2012 as the combined volume of requests collected and canceled exceeded the volume of requests issued. As measured by UPB, approximately 27% and 41% of the repurchase requests outstanding at December 31, 2013 and 2012, respectively, were outstanding for four months or more since issuance of the initial requests (these figures include repurchase requests for which appeals were pending).

In 2013, we began to increase our review of servicing related violations, including by instituting a process of issuing notices of defect for certain servicing violations. Notices of defect issued in 2013 primarily related to the conveyance of properties to us without clear and marketable title.

As of December 31, 2013, two of our largest seller/servicers (Bank of America, N.A. and JPMorgan Chase Bank, N.A.) had aggregate outstanding repurchase requests, based on UPB, of $0.9 billion, and approximately 49% were outstanding for four months or more since issuance of the initial request. The amount we expect to collect on the outstanding requests is significantly less than the UPB of the related loans primarily because many will likely be satisfied by reimbursement of our realized credit losses by seller/servicers, instead of repurchase of loans at their UPB. Some of these requests also may be rescinded in the course of the contractual appeal process. Based on our historical loss experience and the fact that many of these loans are covered by credit enhancements (e.g., mortgage insurance), we expect the actual credit losses experienced by us should we fail to collect on these repurchase requests will also be less than the UPB of the loans.

Repurchase requests related to mortgage insurance rescission and claim denial tend to be outstanding longer than other repurchase requests for a number of reasons, including: (a) lenders may not agree with the basis used by the mortgage insurers to rescind coverage; (b) the mortgage insurers' appeals process for rescissions can be lengthy (as long as one year or more); (c) lenders expect us to suspend repurchase enforcement until after the appeal decision by the mortgage insurer is made (although this is not our practice); and (d) in certain cases, we have agreed to consider a repurchase alternative that would allow certain of

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our seller/servicers to provide us a commitment for the amount of lost mortgage insurance coverage in lieu of a full repurchase. Of the total amount of repurchase requests outstanding at December 31, 2013 and 2012, approximately $0.2 billion and $1.2 billion, respectively, were issued due to mortgage insurance rescission or mortgage insurance claim denial.

Historically, we have used a process of reviewing a sample of the loans we purchase to validate compliance with our underwriting standards. In addition, we review many delinquent loans and loans that have resulted in credit losses, such as through foreclosure or short sale. The loan review and appeal process is lengthy, but we have completed a substantial number of reviews and compiled results of our review of 2012 originations. Based on reviews completed through December 31, 2013, the average aggregate deficiency rate across all seller/servicers for loans funded during 2012, 2011, and 2010 (excluding HARP and other relief refinance loans) was approximately 3%, 5%, and 13%, respectively. These rates may change in the future as our seller/servicers may appeal our findings. The most common underwriting deficiencies found in our review of loans funded during 2012 (excluding HARP and other relief refinance loans) were related to the delivery of inaccurate data, which invalidated the Loan Prospector automated underwriting decision. In recent periods, we also made revisions to our loan review process that are designed to standardize the process and facilitate more timely review of loans we purchase.

Our estimate of recoveries from seller and servicer repurchase obligations is considered in our allowance for loan losses; however, our actual recoveries may be different than our estimates. We believe we have appropriately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves; however, our actual losses may exceed our estimates.

The table below summarizes the percentage of our single-family credit guarantee portfolio by year of loan origination that is subject to agreements releasing loans from certain repurchase obligations, including defaulted counterparties. Since January 1, 2009, we have entered into 12 negotiated agreements and have released repurchase obligations with 70 other seller/servicers as of December 31, 2013.

Table 63 — Loans Released from Repurchase Obligations[1]

	As of December 31, 2013		
Year of origination:	UPB	Percentage of Single-family Credit Guarantee Portfolio	
	(in billions)		
Negotiated agreements:			
2009 and thereafter	$37.1	2.3	%
2008	33.6	2.0	
2007	61.4	3.7	
2006	49.8	3.0	
2005	58.8	3.6	
2004 and prior	114.7	6.9	
Subtotal	355.4	21.5	
Other released loans:[2]			
2010 and thereafter	0.5	<0.1	
2009	5.9	0.4	
2008	5.2	0.3	
2007	9.9	0.6	
2006	5.8	0.4	
2005 and prior	6.9	0.4	
Total	$389.6	23.6	%

(1)

Includes all loans released from certain repurchase obligations, except those loans subject to reduced repurchase obligations associated with our relief refinance mortgage initiative and our new representation and warranty framework that became effective January 1, 2013.

(2) Consist primarily of loans associated with seller/servicers that were no longer in business at December 31, 2013, and result from a discharge of the seller/servicer's obligation or determination of the settlement amount in bankruptcy or receivership proceedings.

We do not have our own mortgage loan servicing operation. Instead, our customers perform the primary servicing function on our loans on our behalf. A significant portion of our single-family mortgage loans are serviced by several large seller/servicers. If our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, our business and financial results could be adversely affected. Our top two single-family loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 24% and 13%, respectively, of our single-family mortgage loans as of December 31, 2013, and together serviced approximately 37% of our single-family mortgage loans. We continue to face challenges with respect to the performance of certain of our seller/servicers in managing our seriously delinquent loans. As part of our efforts to address this issue and mitigate our credit losses, we facilitated the transfer of servicing for $55.6 billion in UPB of loans from our primary servicers to specialty servicers during 2013. Some of these specialty servicers have grown rapidly in the last two years and now service a large share of our loans. We also seek remedies such as compensatory fees for failure to perform certain requirements with respect to the servicing of delinquent loans.

We rely on our seller/servicers to perform loan workout activities as well as foreclosures on loans that they service for us. Our credit losses could increase to the extent that our seller/servicers do not fully perform these obligations in a timely manner. We also continue to be adversely affected by the length of the foreclosure timeline, particularly in states that require a judicial foreclosure process, which has provided challenges to our seller/servicers because they have had to change their processes for compliance with the requirements of each jurisdiction. For more information on our exposure to our seller/servicers, see "RISK FACTORS — Competitive and Market Risks — Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us."

As part of the servicing alignment initiative, we announced changes in our servicing standards for situations in which our servicers obtain property hazard insurance on properties securing single-family loans we own or guarantee. As a result, effective June 1, 2014, our seller/servicers may not receive compensation or other payment from insurance carriers nor may they use their own or affiliated entities to insure or reinsure a property.

Multifamily Mortgage Seller/Servicers

We acquire a significant portion of our multifamily new business volume from several large sellers. We are exposed to certain institutional credit risks arising from the potential non-performance by our multifamily sellers and mortgage servicers. Our top two multifamily sellers, CBRE Capital Markets, Inc. and Berkadia Commercial Mortgage LLC, accounted for 22% and 14%, respectively, of our multifamily new business volume for 2013. Our top 10 multifamily sellers represented an aggregate of approximately 77% of our multifamily new business volume for 2013.

A significant portion of our multifamily mortgage portfolio is serviced by several large multifamily servicers. As of December 31, 2013, our top three multifamily servicers, Berkadia Commercial Mortgage LLC, Wells Fargo Bank, N.A., and CBRE Capital Markets, Inc., each serviced more than 10% of our multifamily mortgage portfolio, excluding K Certificates, and together serviced approximately 37% of this portfolio.

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property's financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk. We monitor the status of all our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

Mortgage Insurers

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

We attempt to manage this risk by establishing eligibility standards for mortgage insurers and by monitoring our exposure to individual mortgage insurers. Our monitoring includes performing periodic analysis of the financial capacity of individual mortgage insurers under various adverse economic conditions. Our ability to manage this risk may be limited as: (a) certain of our mortgage insurers are operating below our eligibility thresholds; and (b) our ability to revoke a mortgage insurer's status as an eligible insurer may require FHFA approval. The 2013 Conservatorship Scorecard includes a goal for us to develop counterparty risk management standards for mortgage insurers that include aligned master policies and eligibility requirements. In connection with this goal, we expect to publish changes to financial requirements and other standards for mortgage insurer eligibility in 2014. In December 2013, FHFA announced that we and Fannie Mae, in collaboration with our mortgage insurers, had completed development of new master policies, for which the mortgage insurers are expected to seek state regulatory approval. These new master policies provide for: (a) assurance of coverage including setting standards for certain circumstances when coverage should be maintained or revoked; (b) specific timeframes for the processing and payment of claims; (c) loss mitigation provisions that support strategies developed during the housing crisis to help troubled homeowners; and (d) standards for enhanced information sharing between insurers, servicers and Freddie Mac. These changes help address the significant problems we faced in recent years in resolving repurchase requests related to mortgage insurance rescission.

As part of the estimate of our loan loss reserves, we evaluate the recovery and collectability related to mortgage insurance policies on mortgage loans we own or guarantee. We also evaluate the collectability of outstanding receivables from these counterparties related to unpaid claims.

The majority of our mortgage insurance exposure is concentrated with four mortgage insurers, certain of which have been under financial stress during the last several years. Some of our eligible mortgage insurers have, in the past, exceeded risk to

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capital ratios required by their state insurance regulators. Although the financial condition of these mortgage insurers improved moderately in 2013 as a result of strong home price appreciation and their having raised additional capital, there is still a significant risk that these counterparties may fail to meet their obligations to pay our claims. Except for those insurers under regulatory or court ordered supervision, which no longer issue new coverage, we continue to acquire new loans with mortgage insurance from the mortgage insurers shown in the table below, many of which have credit ratings below investment grade. Our ability to reduce our exposure to individual mortgage insurers is limited. In recent years, new entrants have emerged that will diversify a concentrated industry. For more information, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers" and “RISK FACTORS — Competitive and Market Risks — Our losses could increase if more of our mortgage or bond insurers become insolvent or fail to perform their obligations to us."

The table below summarizes our exposure to mortgage insurers as of December 31, 2013. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. Our most significant exposure to these insurers is through primary mortgage insurance. As of December 31, 2013, we had primary mortgage insurance coverage on loans that represented approximately 12% of the UPB of our single-family credit guarantee portfolio.

Table 64 — Mortgage Insurance by Counterparty(1)

			As of December 31, 2013			
			UPB of Covered Loans		Coverage Outstanding	
Counterparty Name	Credit Rating	Credit Rating Outlook	Primary Insurance(2)	Pool Insurance(2)	Primary Insurance(3)	Pool Insurance(3)
			(in billions)			
Mortgage Guaranty Insurance Corporation (MGIC)	B	Positive	$44.9	$ 1.6	$11.3	$ < 0.1
Radian Guaranty Inc. (Radian)	B	Stable	44.0	3.5	11.0	1.0
United Guaranty Residential Insurance Company	BBB+	Stable	41.3	0.1	10.3	<0.1
Genworth Mortgage Insurance Corporation	B	Stable	28.3	0.2	7.1	<0.1
PMI Mortgage Insurance Co. (PMI)(4)	Not Rated	N/A	14.5	0.3	3.6	0.1
Republic Mortgage Insurance Company (RMIC)(5)	Not Rated	N/A	11.7	0.6	2.9	0.1
Essent Guaranty, Inc.	BBB	Stable	10.6	—	2.6	—
Triad Guaranty Insurance Corporation (Triad)(6)	Not Rated	N/A	5.3	0.2	1.3	<0.1
CMG Mortgage Insurance Company	BBB-	Positive	2.8	<0.1	0.7	—
Total			$203.4	$ 6.5	$50.8	$ 1.2

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of February 14, 2014. Represents the lower of S&P and Moody’s credit ratings and outlooks stated in terms of the S&P equivalent.

(2) These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance. See “Table 4.5 — Recourse and Other Forms of Credit Protection” in “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for further information.

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

(4) In April 2013, PMI began paying valid claims 55% in cash and 45% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 50% in cash.

(5) Under a plan announced in November 2012, RMIC is paying all valid claims settled on or after January 19, 2012, 60% in cash and 40% in deferred payment obligations.

(6) In June 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations under order of its state regulator. In October 2013, Triad’s plan of rehabilitation was approved. In December 2013, under this plan, Triad began paying valid claims 75% in cash and a one-time cash payment was made to us for claims previously settled for 60% in cash.

We received proceeds of $2.0 billion in each of 2013 and 2012 from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans, including $255 million in the third quarter of 2013 associated with a settlement agreement with Radian. We had outstanding receivables from mortgage insurers (including deferred payment obligations associated with unpaid claim amounts), net of associated reserves, of $0.5 billion and $0.8 billion at December 31, 2013 and 2012, respectively.

In December 2012, we entered into a settlement agreement with MGIC concerning our current and future claims under certain of its pool insurance policies. The Radian and MGIC settlement agreements are described in "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS - Mortgage Insurers."

We have not purchased pool insurance on single-family loans since March 2008 and have reached the maximum limit of recovery on certain pool insurance policies. Our pool insurance policies generally have original coverage periods that range from 10 to 12 years. In many cases, we entered into these agreements to cover higher-risk mortgage product types delivered to us through loan purchase transactions for cash rather than guarantor swaps. As of December 31, 2013, pool insurance policies

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that will expire: (a) during 2014 covered approximately $1.5 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses on such loans was approximately $0.2 billion; (b) between 2015 and 2019 covered approximately $3.6 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses on such loans was approximately $0.2 billion; and (c) after 2019 covered approximately $1.4 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses on such loans was approximately $0.8 billion. Any losses in excess of the contractual limit will be borne by us. These figures include coverage under our pool insurance policies based on the stated coverage amounts under such policies and we may exhaust such coverage before these policies expire. As noted below, we do not expect to receive full payment of our claims from several of these insurers.

PMI, RMIC, and Triad are all under regulatory or court ordered supervision, and a substantial portion of their claims are recorded by us as deferred payment obligations. These insurers continue to pay a portion of their respective claims in cash. However, the state regulators of these companies have generally not allowed them to pay their respective deferred payment obligations. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations, we would lose a portion of the coverage from these insurers shown in the table above. As of December 31, 2013, we had cumulative unpaid deferred payment obligations of $0.6 billion from these insurers. We reserved for substantially all of these unpaid amounts as collectability is uncertain.

Bond Insurers

Bond insurance, which may be either primary or secondary policies, is a credit enhancement covering certain of the non-agency mortgage-related securities we hold. Primary policies are acquired by the securitization trust issuing the securities we purchase, while secondary policies are acquired by us. Bond insurance exposes us to the risk that the bond insurer will be unable to satisfy claims.

The table below presents our coverage amounts of bond insurance, including secondary coverage, for the non-agency mortgage-related securities we hold. In the event a bond insurer fails to perform, the coverage outstanding represents our maximum principal exposure to credit losses related to such a failure.

Table 65 — Bond Insurance by Counterparty(1)

Counterparty Name	Credit Rating	Credit Rating Outlook	As of December 31, 2013 Gross Unrealized Losses(2)	Coverage Outstanding(3)	Percent of Total Coverage Outstanding(3)	
			(dollars in millions)			
Ambac Assurance Corporation (Ambac)(4)	Not Rated	N/A	$239	$3,645	47	%
Financial Guaranty Insurance Company (FGIC)(4)	Not Rated	N/A	33	1,393	18	
National Public Finance Guarantee Corp.	BBB+	Positive	62	1,059	14	
MBIA Insurance Corp.	B-	Positive	5	901	11	
Assured Guaranty Municipal Corp.	A	Stable	10	693	9	
Syncora Guarantee Inc. (Syncora)(4)	Not Rated	N/A	—	48	1	
CIFG Assurance Corporation	Not Rated	N/A	6	30	<1	
Total			$355	$7,769	100	%

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest ratings available as of February 14, 2014. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.
(2) Represents the amount of gross unrealized losses on the non-agency mortgage-related securities with insurance.
(3) Represents maximum principal exposure to credit losses.
(4) Ambac, FGIC, and Syncora are currently operating under regulatory or court ordered supervision.

We monitor the financial strength of our bond insurers in accordance with our risk management policies. Some of our larger bond insurers are in runoff mode where no new business is being written. We expect to receive substantially less than full payment of our claims from Ambac and FGIC as these companies are either insolvent or in rehabilitation. We believe that we will also likely receive substantially less than full payment of our claims from some of our other bond insurers because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge.

In June 2013, FGIC's plan of rehabilitation was approved, under which permitted claims will be paid 17% in cash and the remainder in deferred payment obligations. FGIC has begun payment of initial permitted claims and settlement of deferred payment obligations in accordance with the plan. In the third quarter of 2012, Ambac, which had not paid claims since March 2010, began making cash payments equal to 25% of the permitted amount of each policy claim. In 2013, Ambac also began making supplemental payments, equal to all or a portion of the permitted policy claim, with respect to certain specified securities. For more information concerning Ambac and FGIC, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers.”

In the event one or more of our other bond insurers were to become subject to a regulatory order or insolvency proceeding, our ability to recover certain unrealized losses on our non-agency mortgage-related securities would be negatively affected. We considered our expectations regarding our bond insurers’ ability to meet their obligations in making our impairment determinations on our non-agency mortgage-related securities at December 31, 2013 and 2012. See “NOTE 7: INVESTMENTS IN SECURITIES — Other-Than-Temporary Impairments on Available-For-Sale Securities” for additional information regarding impairment losses on securities covered by bond insurers.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. Our policies require that the issuer be rated as investment grade at the time the financial instrument is purchased. We base the permitted term and dollar limits for each of these transactions on the counterparty's financial strength in order to further mitigate our risk.

Our cash and other investment counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of December 31, 2013 and 2012, including amounts related to our consolidated VIEs, there were $85.9 billion and $60.7 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; (b) Treasury securities classified as cash equivalents; or (c) cash deposited with the Federal Reserve Bank of New York. Although we monitor the financial strength of our counterparties to these transactions and have collateral maintenance requirements for our securities purchased under agreements to resell, we have exposure to loss should any of our counterparties fail. See "RISK FACTORS — Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us" for further information. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for further information on counterparty credit ratings and concentrations within our cash and other investments.

For information about institutional credit risk associated with our investments in non-mortgage-related securities, see “NOTE 7: INVESTMENTS IN SECURITIES — Table 7.8 — Trading Securities.”

Agency and Non-Agency Mortgage-Related Security Issuers

Our investments in securities expose us to institutional credit risk to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform their obligations. Our investments in non-Freddie Mac mortgage-related securities include both agency and non-agency securities. Agency securities have historically presented minimal institutional credit risk due to the guarantee provided by those institutions, and the U.S. government’s support of those institutions. However, we recognized impairment charges in 2013 and 2012 related to certain of our investments in non-agency mortgage-related securities. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities” for further information about these securities, including a discussion of the higher-risk components of these investments.

At the direction of our Conservator, we are working to enforce our rights as an investor with respect to the non-agency mortgage-related securities we hold, and are engaged in various efforts, in some cases in conjunction with other investors, to mitigate or recover losses on our investments in these securities. During 2013, we and FHFA reached settlements with a number of parties pursuant to which we received an aggregate of approximately $5.5 billion. In February 2014, we and FHFA entered into an agreement with Morgan Stanley, and related parties, to settle litigation related to certain residential non-agency mortgage-related securities we hold. Under the agreement, we will be paid $625 million, which will be reflected in our consolidated financial results for the first quarter of 2014. Lawsuits against a number of parties are currently pending. The effectiveness of our efforts is uncertain and any potential recoveries may take significant time to realize. For more information on these efforts, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

Document Custodians

We use third-party document custodians to provide loan document certification and custody services for the loans that we purchase and securitize. In many cases, our seller/servicer customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our PCs and REMICs and Other Structured Securities could be challenged if a seller/servicer intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a seller/servicer or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the seller/servicer were to become insolvent. We seek to mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring transfer of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian.

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Derivative Counterparties

We use cleared derivatives, exchange-traded derivatives, and OTC derivatives, and are exposed to institutional credit risk with respect to these derivatives.

- Cleared derivatives: The Dodd-Frank Act requires central clearing of many types of derivatives. Pursuant to the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission ("CFTC") has determined that the types of interest-rate swaps that we use most frequently are subject to the central clearing requirement, for transactions executed or modified on or after June 10, 2013. We refer to these interest-rate swaps as cleared derivatives. We are required to post initial and variation margin with our clearing member in connection with such transactions. As a result, our exposure to the clearinghouse we use to clear such interest-rate derivatives, and to the clearing members that administer our transactions once accepted for clearing, has increased and will become more concentrated over time. However, the use of cleared derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and our exposure to individual counterparties associated with interest-rate swaps will decrease over time due to the central clearing requirement. In addition, the CFTC has recently certified that certain interest-rate swaps must be traded on exchanges or comparable trading facilities beginning in February 2014.
- Exchange-traded derivatives: We are an active user of exchange-traded derivatives, such as Treasury and Eurodollar futures, and are required to post initial and variation margin with our clearing member in connection with such transactions. The posting of this margin exposes us to institutional credit risk in the event that our clearing member or the exchange’s clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts are settled daily via payments made through the financial clearinghouse established by each exchange.
- OTC derivatives: OTC derivatives refer to those derivatives that are neither cleared derivatives nor exchange-traded derivatives. OTC derivatives expose us to institutional credit risk to individual counterparties, because these transactions are executed and settled directly between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations. When our net position with a counterparty in OTC derivatives subject to a master netting agreement has a market value above zero (i.e., it would be an asset reported as derivative assets, net on our consolidated balance sheets), the counterparty is obligated to deliver collateral in the form of cash, securities, or a combination of both, in an amount equal to that market value (less a small unsecured “threshold” amount in most cases) as necessary to satisfy its net obligation to us under the master netting agreement.

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

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

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 standards. We assign internal ratings, credit capital, and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or certain events affecting an individual counterparty occur.

The relative concentration of our derivative exposure among our primary OTC derivative counterparties remains high as compared to levels experienced prior to 2009. This concentration could further increase. See “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES” for additional information.

The table below summarizes our exposure to our derivative counterparties, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty or clearing member where allowable (i.e., net amounts due to us under derivative contracts which are recorded as derivative assets). For OTC interest-rate swaps, option-based derivatives, and foreign-currency swaps that are in an asset position, we hold collateral against those positions in accordance with agreed upon thresholds. The collateral posting thresholds we assign these counterparties depend on the credit rating of the counterparty and are based on our credit risk policies. In addition, we have OTC interest-rate swap, option-based derivative, and foreign-currency swap liabilities where we post collateral to counterparties in accordance with agreed upon thresholds. Pursuant to certain collateral agreements we have with these counterparties, the collateral posting threshold we are assigned is based on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Derivative Assets and Liabilities, Net" and "Table 30 — Derivative Fair Values and Maturities" for a reconciliation of fair value to the amounts presented on our consolidated balance sheets as of December 31, 2013, which includes both cash collateral held and posted by us, net.

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Table 66 — Derivative Counterparty Credit Exposure

	As of December 31, 2013					
Rating[1]	Number of Counterparties[2]	Notional or Contractual Amount[3]	Total Exposure at Fair Value[4]	Exposure, Net of Collateral[5]	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
	(dollars in millions)					
AA-	4	$52,687	$191	$49	4.3	$10 million or less
A+	3	31,910	1,052	13	6.0	$1 million or less
A	9	345,824	931	110	5.1	$1 million or less
A-	1	35,935	300	16	6.7	$1 million or less
BBB+	1	33	2	—	0.6	$ —
BBB	1	38,442	—	—	5.4	$ —
Subtotal	19	504,831	2,476	188	5.2	
Cleared and exchange-traded derivatives		188,236	790	382		
Commitments		18,731	61	61		
Swap guarantee derivatives		3,477	—	—		
Other derivatives[6]		9,751	—	—		
Total derivatives		$725,026	$3,327	$631		

	As of December 31, 2012					
Rating[1]	Number of Counterparties[2]	Notional or Contractual Amount[3]	Total Exposure at Fair Value[4]	Exposure, Net of Collateral[5]	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
	(dollars in millions)					
AA-	4	$41,169	$—	$—	5.6	$10 million or less
A+	4	86,717	1,220	15	6.0	$1 million or less
A	5	343,353	734	32	5.8	$1 million or less
A-	4	148,271	6	22	5.7	$1 million or less
BBB+	1	42,643	—	—	6.0	$ —
Subtotal	18	662,153	1,960	69	5.8	
Cleared and exchange-traded derivatives		42,673	66	66		
Commitments		25,530	20	20		
Swap guarantee derivatives		3,628	—	—		
Other derivatives[6]		11,847	1	1		
Total derivatives		$745,831	$2,047	$156		

(1) Ratings of our OTC interest-rate swap, options-based derivative (excluding certain written options), and foreign-currency swap derivative counterparties. We use the lower of S&P and Moody's ratings to manage collateral requirements. In this table, the Moody's rating of the legal entity is stated in terms of the S&P

equivalent.

(2) Based on legal entities.

(3) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged.

(4) For each counterparty, this amount includes derivatives with a positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable, when applicable. For counterparties included in the subtotal and the cleared and exchange-traded derivatives category, positions are shown netted at the counterparty or clearing member level, as applicable, including accrued interest receivable/payable and trade/settle fees.

(5) Calculated as Total Exposure at Fair Value less both cash and non-cash collateral held as determined at the counterparty level. At December 31, 2013 and 2012, $432 million and $501 million, respectively, of non-cash collateral had been posted to us. Includes amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level. For more information about collateral we have posted in connection with cleared and exchange-traded derivatives, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged."

(6) Consists primarily of certain written options and certain credit derivatives. Written options do not present counterparty credit exposure because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.

Over time, our exposure to individual derivative counterparties varies depending on changes in fair values, which are affected by changes in period-end interest rates, the implied volatility of interest rates, foreign-currency exchange rates, and the amount of derivatives held. See "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES —

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Derivative Portfolio — Master Netting and Collateral Agreements" for more information about our maximum loss for accounting purposes and concentrations of counterparty risk related to derivative counterparties.

Approximately 94% of our counterparty credit exposure for OTC interest-rate swap, option-based, and foreign-currency swap derivatives was collateralized at December 31, 2013 (excluding amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level). The remaining exposure was primarily due to exposure amounts below the applicable counterparty collateral posting threshold, as well as market movements during the time period between when a derivative was measured at fair value and the date we received the related collateral. In some instances, these market movements result in us having provided collateral that has fair value in excess of our obligation, which represents our overcollateralization exposure. Collateral is typically transferred within one business day based on the values of the related derivatives.

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

As noted above, beginning with contracts executed or modified on or after June 10, 2013, the types of interest-rate swaps that we use most frequently became subject to the central clearing requirement. Our exposure to cleared and exchange-traded derivatives was $382 million and $66 million as of December 31, 2013 and 2012, respectively. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. We are required to post margin in connection with our cleared and exchange-traded derivatives. At December 31, 2013, the majority of our exposure for our cleared and exchange-traded derivatives resulted from our posting of initial margin. The amount of initial margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. For information about margin we have posted in connection with cleared and exchange-traded derivatives, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged."

The total exposure on our forward purchase and sale commitments for mortgages and mortgage-related securities, treated as derivatives for accounting purposes, was $61 million and $20 million at December 31, 2013 and 2012, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation ("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization.

Selected European Sovereign and Non-Sovereign Exposures

The sovereign debt of Spain, Italy, Ireland, Portugal, Greece, and Cyprus (which we refer to herein as the "troubled European countries") and the credit status of financial institutions with significant exposure to the troubled European countries has been adversely affected due to ongoing weaknesses in the economic and fiscal situations of those countries.

As of December 31, 2013, we did not hold any debt issued by the governments of the troubled European countries and did not hold any financial instruments entered into with sovereign governments in those countries. As of that date, we also did not hold any debt issued by corporations or financial institutions domiciled in the troubled European countries and did not hold any other financial instruments entered into with corporations or financial institutions domiciled in those countries. However, the parent entities of three of our seller/servicers are headquartered in a troubled European country. We do not currently believe that our exposure to these seller/servicers is significant. For purposes of this discussion, we consider an entity to be domiciled in a country if its parent entity is headquartered in that country.

Our derivative portfolio and cash and other investments portfolio counterparties include a number of major European and non-European financial institutions. Many of these institutions operate in Europe, and we believe that all of these financial institutions have direct or indirect exposure to the troubled European countries. For many of these institutions, their direct and indirect exposures to the troubled European countries change on a daily basis. We monitor our major counterparties' exposures to the troubled European countries, and adjust our exposures and risk limits to individual counterparties accordingly. Our exposures to derivative portfolio and cash and other investments portfolio counterparties are described in "Derivative Counterparties," "Cash and Other Investments Counterparties" and "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES."

It is possible that continued adverse developments in Europe could significantly affect our counterparties that have direct or indirect exposure to the troubled European countries. In turn, this could adversely affect their ability to meet their obligations

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to us. For more information, see "RISK FACTORS — Competitive and Market Risks – Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us."

Operational Risks

We continue to make strategic investments to maintain and improve our ability to operate the company for the foreseeable future in conservatorship and potentially afterwards. We also continue to strengthen our operations. Beginning in mid-2012 and continuing through 2013, we took steps to enhance management's focus on control issues by elevating awareness of those issues across the company and stressing timely remediation. In addition, our human capital risks have abated considerably in recent periods, as evidenced by low voluntary turnover and vacancy rates. However, we continue to face significant levels of operational risk. Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, and failures of the technology used to support our business activities. We face a variety of operational risks, including those described below and in "RISK FACTORS – Operational Risks."

We have faced challenges with respect to managing servicers and credit loss mitigation due to a number of factors, including high volumes of seriously delinquent loans and inadequate systems. We may face increased operational risk due to the servicing alignment initiative and other new FHFA-mandated activities, such as the initiatives we are pursuing under the Conservatorship Scorecard. While the servicing alignment initiative is a top priority for the company, it may pose significant short-term operational challenges in data management and place additional strain on existing systems, processes, and key resources. See "BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Servicing Alignment Initiative" for more information. There also have been a number of legislative and regulatory developments in recent periods affecting single-family mortgage servicing and foreclosure practices. As a result, we may be required to make additional significant changes to our practices, which could further increase our operational risk.

Our business decision-making, risk management, and financial reporting are highly dependent on our use of models, including those developed internally and by third-parties. We face risk associated with our use of models, as there is inherent uncertainty associated with model results and we could fail to properly implement, operate, or use our models or model inputs. We also face risk that we could make poor business decisions in areas where model results are an important factor. We have taken certain actions to mitigate the risk to the extent possible, including efforts in the area of model oversight and governance, adding modeling and review resources where appropriate, and providing transparency to management over model issues and changes. See "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties."

Our information technology risk continues to decline. For example, in 2013, we completed a three-year multi-million dollar project to move our key legacy applications and infrastructure to current, supported technology. We are investing each year to maintain our technology and are focused on standardizing and simplifying the technology portfolio. We also continue to focus on emerging information security risks. However, our primary business processing and financial accounting systems lack sufficient flexibility to handle all the complexities of, and changes in, our business transactions and related accounting policies and methods. This requires us to rely more extensively on spreadsheets and other end-user computing systems. These systems could have a higher risk of operational failure and error than our primary systems which are subject to our information technology general controls. We believe we are mitigating this risk through active monitoring of, and improvements to, controls over the development and use of end-user computing systems.

We continue to work to improve our operating efficiency. In 2013, we began a multi-year project focused on simplifying our control structure and eliminating redundant control activities.

In order to manage the risk of inaccurate or unreliable valuations of our financial instruments, we engage in an ongoing internal review of our valuations. We perform analysis of valuations on a monthly basis to confirm the reasonableness of the valuations. For more information on the controls in our valuation process, see "FAIR VALUE BALANCE SHEETS AND ANALYSIS — Consideration of Credit Risk in Our Valuation — Valuation Processes and Controls over Fair Value Measurement."

We are building our out-of-region disaster recovery capabilities. However, Freddie Mac management has determined that current business recovery capabilities may not be effective in the event of a catastrophic regional business event (e.g., a disaster that affects our Northern Virginia facilities) and could result in a significant business disruption and inability to process transactions through normal business processes. While we are implementing a remediation plan designed to address the current capability gaps, any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur. The remediation plan is designed to improve Freddie Mac's ability to recover an acceptable level of critical business functionality within predetermined time frames to address regional business disruptions, such as a terrorist event, natural disaster, loss of infrastructure services, denial of access, and/or a pandemic. For more information, see "RISK FACTORS — Operational Risks — A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses."

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Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting and our disclosure controls and procedures as of December 31, 2013. As of December 31, 2013, we had one material weakness related to conservatorship, which remained unremediated, causing us to conclude that our internal control over financial reporting was not effective and that our disclosure controls and procedures were not effective at a reasonable level of assurance. In view of the mitigating actions we have undertaken related to the material weakness, we believe that our consolidated financial statements for the year ended December 31, 2013 have been prepared in conformity with GAAP. For additional information, see "CONTROLS AND PROCEDURES."

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations, which include the following:

- principal payments due to the maturity, redemption or repurchase of our other debt securities;
- interest payments on our other debt securities;
- dividend obligations on our senior preferred stock;
- cash purchases of single-family and multifamily loans;
- purchases of mortgage-related securities and non-mortgage investments;
- removal of modified or seriously delinquent loans from PC trusts;
- any shortfall related to the payments of principal and interest on our mortgage-related securities (i.e., debt securities issued by consolidated trusts), and any other payments related to our guarantees of mortgage assets;
- any disposition costs related to our REO;
- depending on market conditions and the mix of derivatives we employ in connection with our ongoing risk management activities, our derivative portfolio can be either a net source or a net use of cash. For example, depending on the prevailing interest-rate environment, interest-rate swap agreements could cause us either to make interest payments to counterparties or to receive interest payments from counterparties. Purchased options require us to pay a premium while written options allow us to receive a premium;
- collateral that we are required to pledge to third parties in connection with secured financing and daily trade activities. In accordance with contracts with certain derivative counterparties, we post collateral for derivatives in a net loss position, after netting by counterparty, above agreed-upon posting thresholds. See "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES" for information about assets we pledge as collateral; and
- administrative expenses.

We fund our cash needs primarily by issuing short-term and long-term debt. Other sources of cash include:

- interest and principal payments on and sales of securities or mortgage loans that we hold in our mortgage-related investments portfolio or cash and other investments portfolio;
- repurchase transactions with counterparties;
- management and guarantee fees we receive in connection with our guarantee activities (excluding those fees associated with the legislated 10 basis point increase we remit to Treasury); and
- quarterly draws from Treasury under the Purchase Agreement, which are made if we have a quarterly deficit in our net worth.

In addition to the uses and sources of cash described above, we are involved in various legal proceedings, including those discussed in "LEGAL PROCEEDINGS," which may result in a need to use cash to settle claims or pay certain costs or receipt of cash from settlements.

We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities. However, the costs and availability of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs, concern that the U.S. would exhaust its borrowing authority under the statutory debt limit, and any future downgrades in our credit ratings or the credit ratings of the U.S. government. For more information, see "Other Debt Securities — Credit Ratings" and "RISK FACTORS — Competitive and Market Risks — Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings.

A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business."
We make extensive use of the Fedwire system in our business activities. The Federal Reserve requires that we fully fund our account in the Fedwire system to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. We routinely use an open line of credit with a third party, which provides intraday liquidity to fund our activities through the Fedwire system.

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This line of credit is an uncommitted intraday loan facility. As a result, while we expect to continue to use the facility, we may not be able to draw on it, if and when needed. This line of credit requires that we post collateral that, in certain circumstances, the secured party has the right to repledge to other third-parties, including the Federal Reserve Bank of New York. As of December 31, 2013, we pledged approximately $10.5 billion of securities to this secured party. See "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES" for further information. For more information on our short- and long-term liquidity needs, see "CONTRACTUAL OBLIGATIONS."

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

Liquidity Management

Maintaining sufficient liquidity is of primary importance to and a cost of our business. Under our liquidity management practices and policies, we:

- maintain cash and non-mortgage investments to enable us to meet ongoing cash obligations for a limited period of time, assuming no access to unsecured debt markets; and
- maintain unencumbered securities with a value greater than or equal to the largest projected daily cash shortfall for an extended period of time, assuming no access to unsecured debt markets. However, since we do not have access to the Federal Reserve's discount window, it is uncertain that we would have access to liquidity when it is needed.

To facilitate cash management, we forecast cash outflows and inflows using assumptions and models. These forecasts help us to manage our liabilities with respect to asset purchases and runoff, when financial markets are not in crisis. For further information on our management of interest-rate risk associated with asset and liability management, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK."

On July 15, 2013, FHFA provided updated liquidity guidance which requires that our cash and other investments portfolio consist of a certain portion of short-maturity U.S. Treasury securities and deposits at the Federal Reserve Bank of New York. Additionally, the guidance provides that our cash and other investments portfolio may also include overnight and term repurchase agreements, unsecured Federal Funds, and bank certificates of deposit. During 2013, the majority of the funds used to cover our short-term cash liquidity needs was deposited with the Federal Reserve Bank of New York, invested in short-term assets with a rating of A-1/P-1 or AAA, or was issued by a counterparty with that rating. In the event of a downgrade of a position or counterparty, as applicable, below minimum rating requirements, we make an assessment whether to exit the existing position or continue to do business with the counterparty.

On February 18, 2014, FHFA issued guidelines for liquidity risk management at Freddie Mac and Fannie Mae. The guidelines describe the principles the companies should follow to identify, measure, monitor, and control liquidity risk.

Notwithstanding these practices and policies, our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market interest rates, market confidence, operational risks, and other factors. For more information, see "RISK FACTORS — Competitive and Market Risks — Our investment activities may be adversely affected by limited availability of financing and increased funding costs."

Other Debt Securities

We fund our business activities primarily through the issuance of short- and long-term debt. Competition for funding can vary with economic, financial market, and regulatory environments. Historically, we have mainly competed for funds in the debt issuance markets with Fannie Mae and the FHLBs.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. The required reduction in our mortgage-related investments portfolio has reduced our funding needs. We expect that this trend will continue over time as the mortgage-related investments portfolio shrinks. Changes or perceived changes in the government's support of us could have a severe negative effect on our access to the debt markets and on our debt funding costs. In addition, any change in applicable legislative or regulatory exemptions, including those described in "BUSINESS — Regulation and Supervision," could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs.

During the three months and year ended December 31, 2013, we had sufficient access to the debt markets due largely to support from the U.S. government. Our effective short-term debt was 43% of outstanding other debt at December 31, 2013 as compared to 42% at December 31, 2012. Effective short-term debt is the aggregate of short-term debt and the current portion of long-term debt (the portion due within one year). The categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt. We rely significantly on our ability to issue debt on an on-going basis to refinance our short-term debt.

Our debt cap under the Purchase Agreement was $780.0 billion in 2013 and declined to $663.0 billion on January 1, 2014. As of December 31, 2013, we estimate that our aggregate indebtedness was $511.3 billion, or $268.7 billion below the applicable debt cap. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our

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indebtedness on this basis monthly under the caption "Other Debt Activities — Total Debt Outstanding" in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC.

Other Debt Activities

The table below summarizes the par value of other debt securities we issued or paid off, based on settlement dates, during 2013 and 2012. We repurchase, call, or exchange our outstanding medium- and long-term debt securities from time to time for a variety of reasons, including: (a) to help support the liquidity and predictability of the market for our other debt securities; (b) to manage our mix of liabilities funding our assets; or (c) for economic reasons.

Table 67 — Activity in Other Debt

	For the Year Ended December 31,			
	2013		2012	
	(dollars in millions)			
Beginning balance	$552,472		$674,314	
Issued during the period:				
Short-term:				
Amount	$297,349		$290,501	
Weighted-average effective interest rate	0.12	%	0.13	%
Long-term:				
Amount	$112,220		$164,746	
Weighted-average effective interest rate	0.98	%	1.23	%
Total issued:				
Amount	$409,569		$455,247	
Weighted-average effective interest rate	0.35	%	0.53	%
Paid off during the period:(1)				
Short-term:				
Amount	$(273,513	)	$(334,014	)
Weighted-average effective interest rate	0.13	%	0.11	%
Long-term:(2)				
Amount	$(177,183	)	$(243,075	)
Weighted-average effective interest rate	1.57	%	1.89	%
Total paid off:				
Amount	$(450,696	)	$(577,089	)
Weighted-average effective interest rate	0.70	%	0.86	%
Ending balance	$511,345		$552,472	

(1) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls, and payments for repurchases. Calls and repurchases of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

(2) For the years ended December 31, 2013 and 2012, respectively, includes foreign exchange translation of $31 million and $7 million for foreign-currency denominated debt.

Other Short-Term Debt

We fund our operating cash needs, in part, by issuing Reference Bills® securities and other discount notes, which are short-term instruments with maturities of one year or less that are sold on a discounted basis, paying only principal at maturity. Our Reference Bills securities program consists of large issues of short-term debt that we auction to dealers on a regular schedule. We issue discount notes with maturities ranging from one day to one year in response to

investor demand and our cash needs. For purposes of presentation in this report, short-term debt also includes certain medium-term notes that have original maturities of one year or less.
See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Total Debt, Net" for more information about our other short-term debt.
Other Long-Term Debt
We issue debt with maturities greater than one year primarily through our medium-term notes program and our Reference Notes® securities program.
Medium-term Notes

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We issue a variety of fixed- and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, zero-coupon securities and variable-rate securities, with various maturities ranging up to 30 years. For purposes of presentation in this report, medium-term notes with original maturities of one year or less are classified as short-term debt. Medium-term notes typically contain call provisions, effective as early as three months or as long as ten years after the securities are issued.

Reference Notes Securities

Reference Notes securities are regularly issued, U.S. dollar denominated, non-callable fixed-rate securities, which we generally issue with original maturities ranging from two through ten years. While we issued €Reference Notes® securities denominated in Euros in the past, our last non-U.S. dollar denominated debt matured in January 2014.

STACR

In 2013, we completed our first two STACR debt note transactions. For more information, see "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk — Credit Enhancements" and "NOTE 8: DEBT AND SUBORDINATED BORROWNGS — Table 8.2 — Other Long-Term Debt."

Subordinated Debt

During 2013 and 2012, we did not call or issue any Freddie SUBS® securities. At both December 31, 2013 and 2012, the balance of our subordinated debt outstanding was $0.4 billion. Our subordinated debt in the form of Freddie SUBS securities is a component of our risk management and disclosure commitments with FHFA. See “BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Subordinated Debt” for a discussion of changes affecting our subordinated debt as a result of our placement into conservatorship and the Purchase Agreement, and the Conservator’s suspension of certain requirements relating to our subordinated debt. Under the Purchase Agreement, we may not issue subordinated debt without Treasury’s consent.

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. The table below indicates our credit ratings as of February 14, 2014.

Table 68 — Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody’s	Fitch
Senior long-term debt(1)	AA+	Aaa	AAA
Short-term debt(2)	A-1+	P-1	F1+
Subordinated debt(3)	AA-	Aa2	AA-
Preferred stock(4)	D	Ca	C/RR6(5)
Outlook	Stable	Stable	Rating Watch Negative (includes AAA-rated long-term Issuer Default Rating)

(1) Consists of medium-term notes and U.S. dollar Reference Notes securities.
(2) Consists of Reference Bills securities and discount notes.
(3) Consists of Freddie SUBS securities.
(4) Does not include senior preferred stock issued to Treasury.
(5) Preferred stock is not on Rating Watch Negative.

Our credit ratings and outlooks are primarily based on the support we receive from Treasury, and therefore, are affected by changes in the credit ratings and outlooks of the U.S. government. S&P and Moody's affirmed our senior long-term debt and subordinated debt ratings and revised the outlooks on the ratings to stable from negative in June 2013 and July 2013, respectively. These actions followed S&P's and Moody's affirmation of the U.S. government's long-term debt ratings and revision of the rating outlooks to stable from negative. In October 2013, Fitch placed our AAA-rated long-term Issuer Default Rating (IDR), as well as our senior long-term debt, short-term debt and subordinated debt ratings, on Rating Watch Negative (RWN). This action followed Fitch's placement of the U.S. government's debt ratings on RWN.

During 2013, there were two changes to our credit ratings. In December 2013, S&P raised our subordinated debt rating to 'AA-' from 'A' due to the timely repayment of principal and interest on this debt since entering conservatorship and continued government support for our debt securities. In addition, in November 2013, S&P lowered our preferred stock rating to 'D' from 'C' based on the fact that these securities have missed dividend payments and are expected to continue to miss dividend payments going forward.

For information about factors that could lead to future ratings actions, and the potential impact of a downgrade in our credit ratings, see "RISK FACTORS — Competitive and Market Risks — Any downgrade in the credit ratings of the U.S.

government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business."

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

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

Excluding amounts related to our consolidated VIEs, we held $77.1 billion and $47.3 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at December 31, 2013 and 2012, respectively. These investments are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. At December 31, 2013, our non-mortgage-related securities consisted of Treasury notes and Treasury bills that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets. For additional information on these assets, see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell" and "— Investments in Securities — Non-Mortgage-Related Securities."

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and highly liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities. While our holdings of unsecuritized performing single-family mortgage loans, CMBS, non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans, and unsecuritized seriously delinquent and modified single-family mortgage loans are also potential sources of liquidity, we consider them to be less liquid than agency securities.

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

Cash Flows

Our cash and cash equivalents increased by $2.8 billion to $11.3 billion during 2013, as compared to a decrease of $19.9 billion to $8.5 billion during 2012 and a decrease of $8.6 billion to $28.4 billion during 2011. Cash flows provided by operating activities during 2013, 2012, and 2011 were $18.5 billion, $8.5 billion, and $10.3 billion, respectively, primarily driven by cash proceeds from net interest income. Cash flows provided by operating activities during 2013 also included settlements we received related to lawsuits regarding our investments in certain residential non-agency mortgage-related securities. Cash flows provided by investing activities during 2013, 2012, and 2011 were $391.3 billion, $494.4 billion, and $373.7 billion, respectively, primarily resulting from net proceeds received as a result of repayments of single-family held-for-investment mortgage loans. Cash flows used for financing activities during 2013, 2012, and 2011 were $407.0 billion, $522.8 billion, and $392.6 billion, respectively, largely attributable to funds used to repay debt securities of consolidated trusts held by third parties and payments of cash dividends on senior preferred stock.

Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide submissions to FHFA on minimum capital. See "NOTE 18: REGULATORY CAPITAL" for our minimum capital requirement, core capital, and GAAP net worth results as of December 31, 2013 and 2012. In addition, notwithstanding our failure to maintain required capital levels, FHFA directed us to continue to make interest and principal payments on our subordinated debt. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Subordinated Debt."

Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we have received from Treasury, has enabled us to access debt funding on terms sufficient for our needs. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. In each case, the amount of the draw cannot exceed the maximum aggregate amount that may be funded under the Purchase Agreement. The amount of available funding remaining under the Purchase Agreement is currently $140.5 billion. This amount will be reduced by any future draws.

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At December 31, 2013, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. In future periods, we may experience variability in our net income and/or comprehensive income due to changes in factors such as interest rates, yield curves, mortgage spreads, and home prices. Such changes could adversely affect our net worth and result in additional draws under the Purchase Agreement. The Capital Reserve Amount decreases from $3.0 billion for 2013 to $2.4 billion for each quarterly payment in 2014, which increases the risk that we may require a draw. For more information, see "RISK FACTORS — Conservatorship and Related Matters — We may request additional draws under the Purchase Agreement in future periods."

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. See "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Receivership" for additional information on mandatory receivership.

In addition, the GSE Act requires us to set aside or allocate monies each year to certain funds managed by HUD and Treasury. However, FHFA has suspended this requirement. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Allocations." We are also required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. However, an amendment to the Purchase Agreement suspended this fee for each quarter commencing January 1, 2013 for as long as the net worth sweep dividend provisions are applicable.

Based on our Net Worth Amount at December 31, 2013, our dividend obligation to Treasury in March 2014 will be $10.4 billion. We paid dividends of $47.6 billion in cash on the senior preferred stock during 2013. Through December 31, 2013, we have paid aggregate cash dividends to Treasury of $71.3 billion, an amount that slightly exceeds our aggregate draws received under the Purchase Agreement.

At December 31, 2013, our aggregate funding received from Treasury under the Purchase Agreement was $71.3 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. In addition, under the Purchase Agreement, the payment of dividends cannot be used to reduce prior draws from Treasury. Accordingly, while we have paid aggregate cash dividends to Treasury of $71.3 billion, the liquidation preference on the senior preferred stock remains $72.3 billion.

For more information on these matters, see "BUSINESS — Conservatorship and Related Matters" and "— Regulation and Supervision."

FAIR VALUE BALANCE SHEETS AND ANALYSIS

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The three levels of the fair value hierarchy under the accounting guidance for fair value measurements and disclosures are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

We categorize assets and liabilities recorded or disclosed at fair value within the fair value hierarchy based on the valuation processes used to derive their fair values and our judgment regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary based on market conditions. We review ranges of third-party prices and transaction volumes, and hold discussions with dealers and pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the inputs are observable and whether the principal markets are active or inactive. For additional information regarding our classification of assets and liabilities within the fair value hierarchy and the valuation techniques used to measure fair value, see "NOTE 16: FAIR VALUE DISCLOSURES."

Level 3 Recurring Fair Value Measurements

At December 31, 2013 and 2012, we measured and recorded: (a) 31% and 28% of total assets carried at fair value on a recurring basis; and (b) 11% and 7% of total liabilities carried at fair value on a recurring basis using unobservable inputs

(Level 3). These percentages were calculated before the impact of counterparty and cash collateral netting. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. See "NOTE 16: FAIR VALUE DISCLOSURES — Changes in Fair Value Levels" for a discussion of changes in our Level 3 assets and liabilities and "—Table 16.2 — Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs" for the Level 3 reconciliation.

Consideration of Credit Risk in Our Valuation

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

We consider credit risk in our valuation of investments in mortgage-related securities based on fair value measurements that are largely the result of price quotes received from multiple dealers or pricing services. Some of the key valuation drivers of such fair value measurements include the collateral type, collateral performance, credit quality of the issuer, tranche type, weighted average life, vintage, coupon, and interest rates. We also make adjustments for items such as credit enhancements or other types of subordination and liquidity, where applicable. In cases where internally developed models are used, we use market-based inputs or calibrate such inputs to market data. For a discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see "Table 22 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets" and "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk."

We also consider credit risk when we evaluate the valuation of our derivative positions, including the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. However, our fair value of derivatives is not adjusted for credit risk because we obtain collateral from, or post collateral to, counterparties, typically within one business day of the daily market value calculation. See "RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Derivative Counterparties" for a discussion of our counterparty credit risk.

See "NOTE 16: FAIR VALUE DISCLOSURES — Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value" for additional information regarding the valuation of our assets and liabilities.

Valuation Processes and Controls over Fair Value Measurement

We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

See "NOTE 16: FAIR VALUE DISCLOSURES — Valuation Processes and Controls Over Fair Value Measurement" for additional information.

Consolidated Fair Value Balance Sheets Analysis

The consolidated fair value balance sheets in the table below are a supplemental disclosure not intended to be in conformity with GAAP, and present our estimates of the fair value of our assets and liabilities at December 31, 2013 and 2012. The valuations of financial instruments included on our consolidated fair value balance sheets are in accordance with the accounting guidance for fair value measurements and disclosures. In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks," and "RISK FACTORS" and "RISK MANAGEMENT — Operational Risks" for information concerning the risks associated with these models.

Key Components of Changes in the Fair Value of Net Assets

Our attribution of changes in the fair value of net assets relies on models, assumptions, and other measurement techniques that evolve over time. The following are the key components of the attribution analysis:

Core Spread Income

Core spread income on our investments in mortgage loans and mortgage-related securities is a fair value estimate of the net current period accrual of income from the spread between our mortgage-related investments and our other debt, calculated on an option-adjusted basis. OAS is an estimate of the yield spread between a given financial instrument and a benchmark (LIBOR, agency or Treasury) yield curve, after consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options.

Changes in Mortgage-To-Debt OAS

The fair value of our net assets can be significantly affected from period to period by changes in the net OAS between the mortgage and agency debt sectors. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in fair value of net assets arising from net fluctuations in OAS during that period.

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Changes in Interest-Rate Risk

Changes in interest-rate risk represents the estimated net increase or decrease in the fair value of net assets resulting from net modeled exposures related to changes in the interest-rate risks we actively manage. The interest-rate risks to which we are exposed as a result of our investment activities that we actively manage include duration and convexity risks, yield curve risk, and volatility risk.

We seek to manage these risk exposures within prescribed limits as part of our overall investment strategy. Taking these risk positions and managing them within established limits is an integral part of our investment activity. See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks" for more information.

Change in the Fair Value of Credit Guarantee Activities

Change in the fair value of credit guarantee activities represents the estimated impact on the fair value of the credit guarantee business resulting from changes in the amount of such business we conduct plus the effect of changes in interest rates, projections of the future credit outlook and other market factors (e.g., impact of the passage of time on cash flow discounting). Our estimated fair value of credit guarantee activities will change as credit conditions change.

Limitations

Our consolidated fair value balance sheets do not capture all elements of value that are implicit in our operations as a going concern because they only capture the values of the current investment and guarantee portfolios as of the dates presented. For example, our consolidated fair value balance sheets do not capture the value of new investment and guarantee business that would likely replace current business (for example, as prepayments and other liquidations occur), nor do they include any estimation of intangible or goodwill values. Thus, the fair value of net assets presented on our consolidated fair value balance sheets does not represent an estimate of our net realizable, liquidation, or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.

Judgments, assumptions and methodologies used by management may have a significant effect on our measurements of fair value, and the use of different judgments, assumptions and methodologies, as well as changes in market conditions, could have a material effect on the fair value of net assets presented on our consolidated fair value balance sheets. For example, the fair value of certain financial instruments is based on our current principal market (i.e., the market with the greatest volume and level of activity for the financial instruments) as of the dates presented. As market conditions change or new markets evolve, our principal market may change, which could significantly affect the fair value of those instruments.

We report certain assets and liabilities that are not financial instruments, such as property and equipment, REO, and our net deferred tax assets, as well as certain financial instruments that are not subject to the disclosure requirements in the accounting guidance for financial instruments, such as pension liabilities, at their carrying amounts on our consolidated fair value balance sheets. We do not believe these items have a significant impact on our overall fair value results. Other non-financial assets and liabilities on our consolidated balance sheets represent deferrals of costs and revenues that are amortized, such as deferred debt issuance costs and deferred fees. Cash receipts and payments related to these items are generally recognized in the fair value of net assets when received or paid, with no basis reflected on our consolidated fair value balance sheets.

Our senior preferred stock held by Treasury in connection with the Purchase Agreement is recorded at the stated liquidation preference for purposes of the consolidated fair value balance sheets, which is the same as the carrying value in our consolidated balance sheets, and may not reflect fair value. As the senior preferred stock is restricted as to its redemption, we consider the liquidation preference to be the most appropriate measure for purposes of the consolidated fair value balance sheets.

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Table 69 — Consolidated Fair Value Balance Sheets

	December 31, 2013 Carrying Amount[1] (in billions)	2013 Fair Value	2012 Carrying Amount[1]	2012 Fair Value
Assets				
Cash and cash equivalents	$11.3	$11.3	$8.5	$8.5
Restricted cash and cash equivalents	12.2	12.2	14.6	14.6
Federal funds sold and securities purchased under agreements to resell	62.4	62.4	37.6	37.6
Investments in securities:				
Available-for-sale, at fair value	128.9	128.9	174.9	174.9
Trading, at fair value	23.4	23.4	41.5	41.5
Total investments in securities	152.3	152.3	216.4	216.4
Mortgage loans:				
Mortgage loans held by consolidated trusts	1,529.9	1,507.7	1,495.9	1,540.1
Unsecuritized mortgage loans	154.9	138.2	190.4	167.6
Total mortgage loans	1,684.8	1,645.9	1,686.3	1,707.7
Derivative assets, net	1.1	1.1	0.7	0.7
Other assets	42.0	42.0	25.8	25.8
Total assets	$1,966.1	$1,927.2	$1,989.9	$2,011.3
Liabilities				
Debt, net:				
Debt securities of consolidated trusts held by third parties	$1,434.0	$1,436.9	$1,419.5	$1,487.1
Other debt	506.8	512.8	547.5	565.6
Total debt, net	1,940.8	1,949.7	1,967.0	2,052.7
Derivative liabilities, net	0.2	0.2	0.2	0.2
Other liabilities	12.2	18.5	13.8	16.7
Total liabilities	1,953.2	1,968.4	1,981.0	2,069.6
Net assets				
Senior preferred stock	72.3	72.3	72.3	72.3
Preferred stock	14.1	4.4	14.1	0.9
Common stock	(73.5)	(117.9)	(77.5)	(131.5)
Total net assets	12.9	(41.2)	8.9	(58.3)
Total liabilities and net assets	$1,966.1	$1,927.2	$1,989.9	$2,011.3

(1) Equals the amount reported on our GAAP consolidated balance sheets.

Discussion of Fair Value Results

The table below summarizes the change in the fair value of net assets for 2013.

Table 70 — Summary of Change in the Fair Value of Net Assets

	2013 (in billions)
Beginning balance	$(58.3)
Changes in fair value of net assets, before capital transactions	64.7
Subtotal - balance before 2013 capital transactions	6.4

Capital transactions:	
Dividends and share issuances, net[1]	(47.6)
Ending balance	$(41.2)

(1) We did not receive funds from Treasury during 2013 under the Purchase Agreement.

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During 2013, the fair value of net assets, before capital transactions, increased by $64.7 billion. The increase in the fair value of net assets, before capital transactions, during 2013 was primarily due to: (a) the release of our valuation allowance against our net deferred tax assets; (b) an increase in the fair value of our single-family mortgage loans as the result of continued improvement in the credit environment and home prices, partially offset by the effect of a change in estimate related to enhancements implemented to align our economic capital methodology with external capital benchmarks; (c) a benefit from settlements related to lawsuits regarding our investments in certain non-agency single-family mortgage-related securities; (d) a benefit from representation and warranty settlements related to pre-conservatorship loan origination activity; and (e) high estimated core spread income on our mortgage-related securities and a tightening of OAS levels on our non-agency single-family mortgage-related securities. See “Table 69 — Consolidated Fair Value Balance Sheets” for additional details.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other market factors being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens — current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. However, as market conditions change, our estimate of expected fair value gains and losses from OAS may also change, and the actual core spread income recognized in future periods could be significantly different from current estimates.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets.

Securitization Activities and Other Guarantee Commitments

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed mortgages and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of: (a) Freddie Mac mortgage-related securities backed by multifamily loans (e.g., K Certificates); and (b) certain single-family Other Guarantee Transactions. We also have off-balance sheet arrangements related to other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We guarantee the payment of principal and interest on non-consolidated Freddie Mac guaranteed mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and the other guarantee commitments is primarily represented by the UPB of the underlying loans and securities, which was $101.0 billion and $74.2 billion at December 31, 2013 and December 31, 2012, respectively.

As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” which were $10.0 billion and $10.2 billion at December 31, 2013 and December 31, 2012, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. In addition, as part of the HFA initiative, we, together with Fannie Mae, provide liquidity guarantees for certain variable-rate single-family and multifamily housing revenue bonds, under which Freddie Mac generally is obligated to purchase 50% of any tendered bonds that cannot be remarketed within five business days. At December 31, 2013 and December 31, 2012, there were no liquidity guarantee advances outstanding.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements, which may include recourse and primary insurance with third parties. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative” and “NOTE 14: FINANCIAL GUARANTEES” for more information on our off-balance sheet securitization activities and other guarantee commitments.

Other Agreements

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets and non-mortgage assets, and include LIHTC partnerships, certain Other Guarantee Transactions, and certain asset-backed investment trusts. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs' assets and liabilities. See "NOTE 3: VARIABLE INTEREST ENTITIES" for additional information related to our variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. For more information,

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see “RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Derivative Counterparties.” We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans. These non-derivative commitments totaled $289.7 billion and $291.5 billion, in notional value at December 31, 2013 and 2012, respectively.

In connection with the execution of the Purchase Agreement, we, through FHFA, in its capacity as Conservator, issued a warrant to Treasury to purchase 79.9% of our common stock outstanding on a fully diluted basis on the date of exercise. See “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT)” for further information.

CONTRACTUAL OBLIGATIONS

The table below provides aggregated information about the listed categories of our contractual obligations as of December 31, 2013. These contractual obligations affect our short- and long-term liquidity and capital resource needs. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities (other than debt securities of consolidated trusts held by third parties). The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases. Our contractual obligations include other purchase obligations that are enforceable and legally binding, and exclude contracts that we may cancel at will without penalty. For purposes of this table, purchase obligations are included through the termination date specified in the respective agreement, even if the contract is renewable.

In the table below, the amounts of future interest payments on debt securities outstanding at December 31, 2013 are based on the contractual terms of our debt securities at that date. These amounts were determined using certain assumptions including, that: (a) variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2013 until maturity; and (b) callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities presented do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2013, such as: (a) changes in interest rates; (b) the call or retirement of any debt securities; and (c) the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

The table below excludes certain obligations that could significantly affect our short- and long-term liquidity and capital resource needs. These items, which are listed below, have generally been excluded because the amount and timing of the related future cash payments are uncertain:

- future payments related to debt securities of consolidated trusts held by third parties, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain. These payments generally include payments of principal and interest we make to the holders of our guaranteed mortgage-related securities in the event a loan underlying a security becomes delinquent. We also remove mortgages from pools underlying our PCs in certain circumstances, including when loans are 120 days or more delinquent, and retire the associated PC debt;
- any future cash payments associated with the liquidation preference of the senior preferred stock, as well as the quarterly commitment fee (which has been suspended) and the dividends on the senior preferred stock because the timing and amount of any such future cash payments are uncertain. As of December 31, 2013, the aggregate liquidation preference of the senior preferred stock was $72.3 billion. See “BUSINESS — Conservatorship and Related Matters — Treasury Agreements” for additional information;
- future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon changes in the underlying financial instruments in response to items such as changes in interest rates and are therefore uncertain;
- future dividends on the preferred stock we have issued (other than the senior preferred stock), because dividends on these securities are non-cumulative and because we are currently prohibited from paying dividends on these securities;
- the guarantee arrangements pertaining to multifamily housing revenue bonds, where we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain; and
-

future cash contributions to our Pension Plan, as the plan is currently over-funded and benefit accruals ceased at the end of 2013. See "EXECUTIVE COMPENSATION — Pension Plan" and "EXECUTIVE COMPENSATION — Supplemental Executive Retirement Plan — Pension SERP Benefit" for additional information on our Pension Plan.

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Table 71 — Contractual Obligations by Year at December 31, 2013

	Total (in millions)	2014	2015	2016	2017	2018	Thereafter
Long-term debt[1]	$369,578	$78,115	$70,303	$63,564	$51,908	$33,418	$72,270
Short-term debt[1]	141,767	141,767	—	—	—	—	—
Interest payable[2]	39,829	12,329	5,656	4,558	3,235	2,195	11,856
Other liabilities reflected on our consolidated balance sheet:							
Other contractual liabilities[3][4]	1,581	923	8	8	9	7	626
Purchase obligations:							
Purchase commitments[5]	13,002	13,002	—	—	—	—	—
Other purchase obligations[6]	198	134	33	15	6	2	8
Operating lease obligations	29	13	6	6	2	1	1
Total specified contractual obligations	$565,984	$246,283	$76,006	$68,151	$55,160	$35,623	$84,761

(1) Represents par value. Callable debt is included in this table at its contractual maturity. For additional information about our debt, see "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS."

(2) Includes estimated future interest payments on our short-term and long-term debt securities as well as the accrual of periodic cash settlements of derivatives, netted by counterparty. Also includes accrued interest payable recorded on our consolidated balance sheet, which consists primarily of the accrual of interest for our PCs and certain Other Guarantee Transactions, and the accrual of interest on short-term and long-term debt.

(3) Includes obligations related to our non-qualified defined benefit plan, qualified and non-qualified defined contribution plans, retiree medical plan, and other benefit plans.

(4) Other contractual liabilities include future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships and payables to the consolidated trusts established for the administration of cash remittances received related to the underlying assets of Freddie Mac mortgage-related securities.

(5) Purchase commitments represent our obligations to purchase mortgage loans and mortgage-related securities from third parties. The majority of purchase commitments included in this caption are accounted for as derivatives in accordance with the accounting guidance for derivatives and hedging.

(6) Primarily includes unconditional purchase obligations that are legally binding and that are subject to a cancellation penalty. Does not include contracts that we may cancel at will without penalty.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Our critical accounting policies and estimates relate to: (a) the allowance for loan losses and the reserve for guarantee losses; (b) fair value measurements; (c) impairment recognition on investments in securities; and (d) our ability to realize net deferred tax assets. For additional information about our critical accounting policies and estimates and other significant accounting policies, as well as recently issued accounting guidance, see "NOTE 1: SUMMARY OF

SIGNIFICANT ACCOUNTING POLICIES."

Allowance for Loan Losses and Reserve for Guarantee Losses

The allowance for loan losses and the reserve for guarantee losses represent estimates of probable incurred credit losses. The allowance for loan losses pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets, whereas the reserve for guarantee losses relates to single-family and multifamily loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. We use the same methodology to determine our allowance for loan losses and reserve for guarantee losses, as the relevant factors affecting credit risk are the same. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves.

Determining the appropriateness of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. This process involves the use of models that require us to make judgments about matters that are difficult to predict, the most significant of which are the probability of default and loss severity on single-family loans. We regularly evaluate the underlying estimates and models we use when determining loan loss reserves and update our assumptions to reflect our historical experience and current view of economic factors. See "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties."

We believe the level of our loan loss reserves is appropriate based on internal reviews of the factors and methodologies used. No single statistic or measurement determines the appropriateness of the loan loss reserves. Changes in one or more of the estimates or assumptions used to calculate the loan loss reserves could have a material impact on the loan loss reserves and provision for credit losses.

Single-Family Loan Loss Reserves

Most single-family loans are aggregated into pools based on similar risk characteristics and measured collectively using a statistically based model that evaluates a variety of factors affecting collectability, including but not limited to: (a) estimated current LTV ratios; (b) loan product type; (c) delinquency/default status and history; and (d) geographic location. Inputs used by the model are regularly updated for changes in the underlying data, assumptions, and market conditions. We consider the output of this model, together with other information such as our expectations with respect to the following: (a) future levels of loan modifications; (b) future repurchases by seller/servicers of loans; (c) the adequacy of third-party credit enhancements; (d) the effects of changes in government policies and programs; (e) the effects of macroeconomic variables such as rates of unemployment; and (f) the effects of home price changes on borrower behavior. The inability to realize the benefits of our loss mitigation activities, a lower realized rate of seller/servicer repurchases, declines in home prices, deterioration in the financial condition of our mortgage insurance counterparties, or increases in delinquency rates would cause our losses to be significantly higher than those currently estimated.

Individually impaired single-family loans include loans that have undergone a TDR and are measured for impairment as the excess of our recorded investment in the loan over the present value of the expected future cash flows. Our expectation of future cash flows incorporates many of the judgments indicated above.

Multifamily Loan Loss Reserves

To determine loan loss reserves for the multifamily loan portfolio, including determining which loans are individually impaired, we consider all available evidence including, but not limited to, operating cash flows from the underlying property as represented by its current DSCR, the fair value of collateral underlying the loans, evaluation of the repayment prospects, the expected adequacy of third-party credit enhancements, year of origination, certain macroeconomic data, and available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Multifamily loans evaluated collectively for impairment are aggregated into book year vintages and measured by benchmarking published historical commercial mortgage data to those vintages based upon some of the factors listed above.

Individually impaired multifamily loans are generally measured for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as multifamily loans are generally collateral-dependent and most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan.

Fair Value Measurements

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. Assets and liabilities within our consolidated financial statements measured at fair value include: (a) mortgage-related and non-mortgage related securities; (b) mortgage loans held-for-sale; (c) derivative instruments; (d) certain debt securities of consolidated trusts held by third parties and certain other debt; and (e) REO. 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 accounting guidance also establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the assumptions a market participant would use at the measurement date. Fair value measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. The measurement of fair value requires management to make judgments and assumptions. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our consolidated statements of comprehensive income and consolidated balance sheets. See “NOTE 16: FAIR VALUE DISCLOSURES” and “FAIR VALUE BALANCE SHEETS AND ANALYSIS” for additional information regarding fair value hierarchy and measurements.

Impairment Recognition on Investments in Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings.

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If we intend to sell the security or believe it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the security's entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security's unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recorded in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. See "NOTE 7: INVESTMENTS IN SECURITIES — Impairment Recognition on Investments in Securities" and "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" for more information on impairment recognition on securities.

We believe our judgments and assumptions used in our evaluation of other-than-temporary impairment are reasonable. However, different judgments or assumptions could have resulted in materially different recognition of other-than-temporary impairment. It is possible that the losses we ultimately realize could be significantly higher or lower than the losses we have recognized to date in our consolidated statements of comprehensive income.

Realizability of Deferred Tax Assets, Net

Deferred tax assets reflect timing differences between the recognition of income/expenses for financial reporting purposes and the recognition of income/expenses for tax reporting purposes. Deferred tax assets are created when: (a) expenses are recognized for financial reporting purposes prior to the corresponding recognition of expenses for tax reporting purposes; and/or (b) income is recognized for tax reporting purposes prior to the corresponding recognition of income for financial reporting purposes. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income of the appropriate character (i.e., ordinary income or capital gains) in the available carryback and carryforward years under the tax law, which would include reversals of existing taxable temporary differences and liabilities associated with unrecognized tax benefits. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that all or part of our tax benefits will not be realized.

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. In conducting our assessment, we evaluate all available objective evidence including, but not limited to: (a) our three-year cumulative income position; (b) the trend of our financial and tax results; (c) the amount of taxable income reported in our federal income tax return; (d) our tax net operating loss and tax credit carryforwards and the length of carryforward periods available to utilize these assets under current tax law; and (e) our access to capital under the agreements associated with conservatorship. Furthermore, we evaluate all available subjective evidence including, but not limited to: (a) difficulty in predicting unsettled circumstances related to the conservatorship; (b) our estimated taxable income; and (c) forecasts of future book and tax income. Our consideration of the evidence requires significant judgment regarding estimates and assumptions that are inherently uncertain, particularly about our future business structure and financial results.

We are not permitted to consider the impacts proposed legislation may have on our business operations or the mortgage industry in our analysis because the timing and certainty of those actions are unknown and beyond our control.

During 2013, we concluded that it was more likely than not that our deferred tax assets would be realized and we released the valuation allowance against our net deferred tax assets. In future quarters we will continue to evaluate our ability to realize our net deferred tax assets. If evidence in future periods changes such that it is more likely than not that part or all of the net deferred tax assets will not be realized, we will reestablish a valuation allowance at that time. For more information see "NOTE 12: INCOME TAXES."

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA, then OFHEO, that updated these commitments and set forth a process for implementing them. A copy of the letters between us and OFHEO dated September 1, 2005 constituting the written agreement has been filed as an exhibit to our Registration Statement on Form 10, filed with the SEC on July 18, 2008, and is available on the Investor Relations page of our web site at www.freddiemac.com/investors/sec_filings/index.html.

In November 2008, FHFA suspended our periodic issuance of subordinated debt disclosure commitment during the term of conservatorship and thereafter until directed otherwise. In March 2009, FHFA suspended the remaining disclosure commitments under the September 1, 2005 agreement until further notice, except that: (a) FHFA will continue to monitor our adherence to the substance of the liquidity management and contingency planning commitment through normal supervision activities; and (b) we will continue to provide interest-rate risk and credit risk disclosures in our periodic public reports.

Our monthly average PMVS results, duration gap, and related disclosures are provided in our Monthly Volume Summary reports, which are available on our web site, www.freddiemac.com and in current reports on Form 8-K we file with the SEC. For disclosures concerning our PMVS and duration gap, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate and Other Market Risks — PMVS and Duration Gap." For disclosures concerning credit risk sensitivity, see "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Credit Risk Sensitivity."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest-Rate Risk and Other Market Risks

Our mortgage-related investments portfolio (i.e., mortgage loans and mortgage-related securities), non-mortgage investments, and unsecured debt expose us to interest-rate risk and other market risks, including basis and spread risk, and prepayment risk arising from credit risk primarily: (a) from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities; and (b) unexpected prepayments or differences in expected cash flows due to default of the underlying borrower or modification of loan terms by the servicer. For a majority of our mortgage-related investments, the mortgage borrower has the option to make unscheduled payments of additional principal or to completely pay off a mortgage loan at any time before its scheduled maturity date (without having to pay a prepayment penalty) or make principal payments in accordance with their contractual obligation. For more information on credit risk, see "MD&A — RISK MANAGEMENT — Credit Risk."

Our credit guarantee activities also expose us to interest-rate risk because changes in interest rates can cause fluctuations in the fair value of our existing credit guarantees. We generally do not hedge these changes in fair value except for interest-rate exposure related to buy-ups and float. Float, which arises from timing differences between when the borrower makes principal payments on the loan and the reduction of the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate earned by the securitization trusts on payments received from mortgage borrowers and paid to us as trust management income.

Changes in prepayments, defaults, basis and spreads, or unexpected prepayments could result in significant economic losses and have an adverse impact on earnings and net worth. In addition, these risks could result in realized losses upon the sale of assets. While we manage interest-rate risk, we have limited ability to manage basis and spread risk.

We use derivatives as an important part of our strategy to manage interest-rate and prepayment risk. When determining to use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risks, and our overall risk management strategy. See "MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk" and "RISK FACTORS" for a discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

Interest-Rate Risk Management Strategy and Framework

We employ a risk management framework, using the fair value of financial instruments, that seeks to maintain certain interest rate characteristics of our assets and liabilities within our risk limits through a number of different strategies, including:

- asset selection and structuring: We may acquire or structure mortgage-related securities with certain expected prepayment and other characteristics;
- callable and non-callable unsecured debt; and
- interest rate derivatives, including swaptions and swaps.

To maintain our interest-rate risk exposure across a range of interest-rate scenarios within our risk limits, we analyze the interest-rate sensitivity of financial assets and liabilities at the instrument level on a daily basis and across a variety of interest rate scenarios. For risk management purposes, the interest-rate characteristics of each instrument are determined daily based on market prices and models. The fair values of our assets, liabilities and derivatives are primarily based on either third-party prices, or observable market-based inputs. For more information, see "NOTE 16: FAIR VALUE DISCLOSURES — Valuation Processes and Controls over Fair Value Measurement."

Annually, the Business and Risk Committee of our Board of Directors establishes certain Board limits for interest-rate risk measures, and if we exceed these limits we are required to notify the Business and Risk Committee and address the limit breach. These limits encompass a range of interest-rate risks that include duration risk, convexity risk, volatility risk, and yield curve risk associated with our use of various financial instruments, including derivatives. Also, on an annual basis, our Enterprise Risk Management division establishes management limits and makes recommendations with respect to the limits to be established at the Board level. These limits are reviewed by our Enterprise Risk Management Committee, which is responsible for reviewing performance as compared to the established limits. The management limits are set at values below those set at the Board level, which is intended to allow us to follow a series of predetermined actions in the event of a breach of the management limits and helps ensure proper oversight to reduce the possibility of exceeding the Board limits.

The principal types of interest-rate risk and other market risks to which we are exposed are described below.

Duration Risk and Convexity Risk

Duration is a measure of a financial instrument's price sensitivity to a 100 basis point change in interest rates along the yield curve (expressed in percentage terms). Convexity is a measure of how much a financial instrument's duration changes as interest rates change. Similar to the duration calculation, we compute each instrument's convexity by applying the shock, both upward and downward, to the LIBOR curve and evaluating the impact on the duration. Currently, short-term interest rates are at historically low levels and, at some points, the LIBOR curve is less than 25 basis points. As a result, the basis point shock to the LIBOR curve described above is bounded by zero. Our convexity risk primarily results from prepayment risk.

Yield Curve Risk

Yield curve risk is the risk that non-parallel shifts in the yield curve (such as a flattening or steepening) will adversely affect the fair value of net assets and ultimately adversely affect our net worth. Because changes in the shape, or slope, of the yield curve often arise due to changes in the market's expectation of future interest rates at different points along the yield curve, we evaluate our exposure to yield curve risk by examining potential reshaping scenarios at various points along the yield curve. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-YC disclosure.

Volatility Risk

Volatility risk is the risk that changes in the market's expectation of the magnitude of future variations in interest rates will adversely affect the fair value of net assets and ultimately adversely affect our net worth. Volatility risk arises from the prepayment risk that is inherent in mortgages or mortgage-related securities. In general, as expected future interest rate volatility increases, the homeowner's prepayment option increases in value, thus negatively impacting the value of the mortgage security backed by the underlying mortgages. We manage volatility risk by maintaining a portfolio of callable debt, without a related swap, and option-based interest rate derivatives. We actively manage and monitor our volatility risk exposure over a range of changing interest rate scenarios.

Basis Risk

Basis risk is the risk that interest rates in different market sectors will not move in tandem and will adversely affect the fair value of net assets and ultimately adversely affect our net worth. This risk arises principally because the mortgage-related investments generally do not move in tandem with our financial liabilities and derivatives. We are continually exposed to significant basis risk, also referred to as mortgage-to-debt OAS risk or spread risk, arising from funding mortgage-related investments with debt securities. See "MD&A — FAIR VALUE BALANCE SHEETS AND ANALYSIS — Consolidated Fair Value Balance Sheets Analysis — Key Components of Changes in Fair Value of Net Assets — Changes in Mortgage-To-Debt OAS" for additional information. We also incur basis risk when we use LIBOR- or Treasury-based instruments in our risk management activities.

Model Risk

Models, including mortgage prepayment models, interest rate models, home price models, mortgage default models, and model adjustments based on new information or changes in conditions, are an integral part of our investment framework. As market conditions change rapidly, the assumptions that we use in our models for our sensitivity analyses (including PMVS and duration gap measures) may not keep pace with these market changes. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair values of our assets. We manage our model risk by reviewing the performance of our models. To improve the accuracy of our models, changes to the underlying assumptions or modeling techniques are made on a periodic basis. Model development and model testing are reviewed and approved independently by our Enterprise Risk Management division. Model performance is also reported regularly through a series of internal management committees. See "MD&A — RISK MANAGEMENT — Operational Risks" and "RISK FACTORS — Operational Risks — W face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties" for a discussion of the risks associated with our use of models. Given the importance of models to our investment management practices, model changes undergo a rigorous review process. As a result, it is common for model changes to take several months to complete, which could affect our estimation of risk metrics.

Foreign-Currency Risk

Foreign-currency risk is the risk that fluctuations in currency exchange rates (e.g., Euros to the U.S. dollar) will adversely affect the fair value of debt denominated in currencies other than the U.S. dollar, our functional currency. We mitigated virtually all of our foreign-currency risk by entering into swap transactions that effectively converted foreign-currency denominated obligations into U.S. dollar-denominated obligations. We no longer have any significant risks associated with fluctuations in currency exchange rates, because our last non-U.S. dollar denominated debt matured in January 2014.

Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk

PMVS and Duration Gap

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

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

- We calculate our exposure to changes in interest rates using effective duration. Effective duration measures the percentage change in the price of financial instruments from a 1% change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise.
- Together, duration and convexity provide a measure of an instrument's overall price sensitivity to changes in interest rates. We utilize the aggregate duration and convexity risk of all interest-rate sensitive instruments on a daily basis to estimate the two PMVS metrics. The duration and convexity measures are used to estimate PMVS under the following formula:

PMVS = –[Duration] multiplied by [rate shock] plus [0.5 multiplied by Convexity] multiplied by [rate shock^2]

In the equation, [rate shock] represents the interest-rate change expressed in fair value terms. Assuming an adverse 50 basis point change, the result of this formula is the fair value of sensitivity to the change in rate, which is expressed as: PMVS = (0.5 absolute value of duration) + (0.125 convexity), assuming convexity is negative.

- To estimate PMVS-L, an instantaneous parallel 50 basis point shock is applied to the yield curve, as represented by the US swap curve, holding all spreads to the swap curve constant. This shock is applied to the duration and convexity of all interest-rate sensitive financial instruments. The resulting change in market value for the aggregate portfolio is computed for both the up rate and down rate shock and the change in market value in the more adverse scenario of the up and down rate shocks is the PMVS. In cases where both the up rate and down rate shock results in a positive impact, the PMVS is zero. Because this process uses a parallel, or level, shock to interest rates, we refer to this measure as PMVS-L.
- To estimate sensitivity related to the shape of the yield curve, a yield curve steepening and flattening of 25 basis points is applied to the duration of all interest-rate sensitive instruments. The resulting change in market value for the aggregate portfolio is computed for both the steepening and flattening yield curve scenarios. The more adverse yield curve scenario is then used to determine the PMVS-yield curve. Because this process uses a non-parallel shock to interest rates, we refer to this measure as PMVS-YC.
- The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity. Our PMVS measures assume instantaneous shocks. Therefore, these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically expect to take to reduce our risk exposure.

Duration gap measures the difference in price sensitivity to interest rate changes between our assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of net assets unchanged. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates fall and decrease in value when interest rates rise. A negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates rise and decrease in value when interest rates fall.

We estimate the sensitivity to changes in interest rates of the fair value of all financial assets, liabilities, and derivatives on a pre-tax basis. We also take into account the cash flows related to certain credit guarantee-related items, including buy-ups and expected gains or losses due to net interest from float. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

-

Credit guarantee activities. We do not consider the sensitivity of the fair value of credit guarantee activities to changes in interest rates except for the guarantee-related items mentioned above (i.e., buy-ups and float), because we do not actively manage the change in the fair value of our guarantee business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guarantee business because these changes do not take into account the potential for new future guarantee business activity.

- Other assets with minimal interest-rate sensitivity. We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because we estimate their impact on PMVS and duration gap to be minimal.

Limitations of Market Risk Measures

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

There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not consider other factors that may have a significant effect on our financial instruments, most notably business activities and strategic actions that management may take in the future to manage interest-rate risk. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets.

In addition, it has been more difficult in recent years to measure and manage the interest-rate risk related to mortgage assets as risk for prepayment model error remains high due to the low interest rate environment and uncertainty regarding default rates, unemployment, government policy changes and programs, loan modifications, and the volatility and impact of home price movements on mortgage durations. Misestimation of prepayments, resulting in over or under hedging of interest-rate risk, could result in significant economic losses and have an adverse impact on earnings. In addition, this misestimation could result in realized losses upon the sale of assets.

Duration Gap and PMVS Results

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation for the years ended December 31, 2013 and 2012. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear.

Our PMVS-L (50 basis points) exposure at December 31, 2013 was $176 million, which decreased compared to December 31, 2012 primarily due to a decrease in our negative convexity exposure. On an average basis for the year ended December 31, 2013, our PMVS-L (50 basis points) was $235 million, primarily resulting from our negative convexity exposure on our mortgage assets.

Table 72 — PMVS and Duration Gap Results

	PMVS-YC 25 bps (in millions)	PMVS-L 50 bps	100 bps
Assuming shifts of the LIBOR yield curve:			
December 31, 2013	$—	$176	$368
December 31, 2012	$49	$296	$900

	Year Ended December 31, 2013			2012		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	0.2	$21	$235	(0.1)	$38	$198
Minimum	(1.2)	$—	$—	(2.4)	$1	$—
Maximum	2.0	$78	$673	1.5	$129	$661
Standard deviation	0.5	$16	$121	0.5	$34	$108

Derivatives have historically enabled us to reduce our interest-rate risk exposure, which could have been higher without the use of derivatives. The table below shows that the PMVS-L risk levels for the periods presented would have been higher if we had not used derivatives. The derivative impact on our PMVS-L (50 basis points) was $(2.0) billion at December 31, 2013, an increase of $1.1 billion from December 31, 2012. The increase was primarily driven by an increase in the estimated duration of our mortgage assets caused by the increase in interest rates during 2013.

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Table 73 — Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
	(in millions)		
At:			
December 31, 2013	$2,166	$176	$(1,990)
December 31, 2012	$1,189	$296	$(893)

Duration Gap Results

We actively measure and manage our duration gap exposure on a daily basis. In addition to duration gap management, we also measure and manage the price sensitivity of our portfolio to a number of different specific interest rate changes along the yield curve. The price sensitivity of an instrument to specific changes in interest rates is known as the instrument's key rate duration risk. By managing our duration exposure both in aggregate through duration gap and to specific changes in interest rates through key rate duration, we expect to limit our fair value exposure to interest rate changes for a wide range of interest rate yield curve scenarios. However, hedging our overall duration gap exposure could result in increased volatility in our financial results, as our derivatives and the majority of our financial assets are measured at fair value, while our financial liabilities are generally not measured at fair value. Our average duration gap, rounded to the nearest month, for the months of December 2013 and 2012 was zero months in both periods. Our average duration gap, rounded to the nearest month, during the years ended December 31, 2013 and 2012 was zero months in both periods.

The disclosure in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Freddie Mac

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Freddie Mac, a stockholder-owned government-sponsored enterprise, and its subsidiaries (the "Company") at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency (“FHFA”) that may have financial statement disclosure ramifications to be communicated to management of Freddie Mac existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in "Note 2: Conservatorship and Related Matters", in September 2008, the Company was placed into conservatorship by the FHFA. The U.S. Department of Treasury (“Treasury”) has committed financial support to the Company and management continues to conduct business operations pursuant to the delegated authorities from FHFA during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 27, 2014

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2013	2012	2011
	(in millions, except share-related amounts)		
Interest income			
Mortgage loans:			
Held by consolidated trusts	$57,189	$65,089	$77,158
Unsecuritized	7,694	8,960	9,124
Total mortgage loans	64,883	74,049	86,282
Investments in securities	7,768	10,583	12,791
Other	51	86	67
Total interest income	72,702	84,718	99,140
Interest expense			
Debt securities of consolidated trusts	(47,350)	(56,109)	(67,119)
Other debt:			
Short-term debt	(178)	(176)	(331)
Long-term debt	(8,251)	(10,217)	(12,538)
Total interest expense	(55,779)	(66,502)	(79,988)
Expense related to derivatives	(455)	(605)	(755)
Net interest income	16,468	17,611	18,397
Benefit (provision) for credit losses	2,465	(1,890)	(10,702)
Net interest income after benefit (provision) for credit losses	18,933	15,721	7,695
Non-interest income (loss)			
Gains (losses) on extinguishment of debt securities of consolidated trusts	314	(58)	(219)
Gains (losses) on retirement of other debt	132	(77)	44
Derivative gains (losses)	2,632	(2,448)	(9,752)
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(763)	(1,236)	(2,101)
Portion of other-than-temporary impairment recognized in AOCI	(747)	(932)	(200)
Net impairment of available-for-sale securities recognized in earnings	(1,510)	(2,168)	(2,301)
Other gains (losses) on investment securities recognized in earnings	301	(1,522)	(896)
Other income	6,650	2,190	2,246
Non-interest income (loss)	8,519	(4,083)	(10,878)
Non-interest expense			
Salaries and employee benefits	(833)	(810)	(832)
Professional services	(543)	(361)	(270)
Occupancy expense	(54)	(57)	(62)
Other administrative expenses	(375)	(333)	(342)
Total administrative expenses	(1,805)	(1,561)	(1,506)
Real estate owned operations income (expense)	140	(59)	(585)
Other expenses	(424)	(573)	(392)
Non-interest expense	(2,089)	(2,193)	(2,483)
Income (loss) before income tax benefit	25,363	9,445	(5,666)
Income tax benefit	23,305	1,537	400
Net income (loss)	48,668	10,982	(5,266)

Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	2,406	4,769	3,465
Changes in unrealized gains (losses) related to cash flow hedge relationships	316	414	509
Changes in defined benefit plans	210	(126)	62
Total other comprehensive income (loss), net of taxes and reclassification adjustments	2,932	5,057	4,036
Comprehensive income (loss)	$51,600	$16,039	$(1,230)
Net income (loss)	$48,668	$10,982	$(5,266)
Undistributed net worth sweep and senior preferred stock dividends	(52,199)	(13,056)	(6,498)
Loss attributable to common stockholders	$(3,531)	$(2,074)	$(11,764)
Loss per common share — basic and diluted	$(1.09)	$(0.64)	$(3.63)
Weighted average common shares outstanding (in thousands) — basic and diluted	3,238,047	3,240,028	3,244,896

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

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FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes $1 and $1, respectively, related to our consolidated VIEs)	$11,281	$8,513
Restricted cash and cash equivalents (includes $12,193 and $14,289, respectively, related to our consolidated VIEs)	12,265	14,592
Federal funds sold and securities purchased under agreements to resell (includes $3,150 and $19,250, respectively, related to our consolidated VIEs)	62,383	37,563
Investments in securities:		
Available-for-sale, at fair value (includes $70 and $132, respectively, pledged as collateral that may be repledged)	128,919	174,896
Trading, at fair value (includes $365 and $0, respectively, pledged as collateral that may be repledged)	23,404	41,492
Total investments in securities	152,323	216,388
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of $3,006 and $4,919, respectively)	1,529,905	1,495,932
Unsecuritized (net of allowances for loan losses of $21,612 and $25,788, respectively)	146,158	176,177
Total held-for-investment mortgage loans, net	1,676,063	1,672,109
Held-for-sale, at fair value	8,727	14,238
Total mortgage loans, net	1,684,790	1,686,347
Accrued interest receivable (includes $5,111 and $5,426, respectively, related to our consolidated VIEs)	6,150	6,875
Derivative assets, net	1,063	657
Real estate owned, net (includes $49 and $45, respectively, related to our consolidated VIEs)	4,551	4,378
Deferred tax assets, net	22,716	778
Other assets (Note 19) (includes $2,172 and $7,986, respectively, related to our consolidated VIEs)	8,539	13,765
Total assets	$1,966,061	$1,989,856
Liabilities and equity (deficit)		
Liabilities		
Accrued interest payable (includes $4,702 and $5,142, respectively, related to our consolidated VIEs)	$6,803	$7,710
Debt, net:		
Debt securities of consolidated trusts held by third parties (includes $59 and $70 at fair value, respectively)	1,433,984	1,419,524
Other debt (includes $2,683 and $2,187 at fair value, respectively)	506,767	547,518
Total debt, net	1,940,751	1,967,042
Derivative liabilities, net	180	178

Other liabilities (Note 19) (includes $6 and $1, respectively, related to our consolidated VIEs)	5,492	6,099
Total liabilities	1,953,226	1,981,029
Commitments and contingencies (Notes 9, 14, and 17)		
Equity (deficit)		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,039,533 shares and 650,033,623 shares outstanding, respectively	—	—
Additional paid-in capital	—	1
Retained earnings (accumulated deficit)	(69,719)	(70,796)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $1,100 and $6,606, respectively, related to net unrealized losses on securities for which other-than-temporary impairment has been recognized in earnings)	962	(1,444)
Cash flow hedge relationships	(1,000)	(1,316)
Defined benefit plans	32	(178)
Total AOCI, net of taxes	(6)	(2,938)
Treasury stock, at cost, 75,824,353 shares and 75,830,263 shares, respectively	(3,885)	(3,885)
Total equity (deficit) (See NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT) for information on our dividend obligation to Treasury)	12,835	8,827
Total liabilities and equity (deficit)	$1,966,061	$1,989,856

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)

	Shares Outstanding Senior Preferred Stock	Preferred Stock	Common Stock	Senior Preferred Stock, at Redemption Value	Preferred Stock, at Redemption Value	Common Stock, at Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI, Net of Tax	Treasury Stock, at Cost	Total Equity (Deficit)
	(in millions)										
Balance as of December 31, 2010	1	464	649	$ 64,200	$ 14,109	$ —	$ 7	$ (62,733)	$(12,031)	$(3,953)	$(401)
Comprehensive income (loss):											
Net loss	—	—	—	—	—	—	—	(5,266)	—	—	(5,266)
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	4,036	—	4,036
Comprehensive income (loss)	—	—	—	—	—	—	—	(5,266)	4,036	—	(1,230)
Increase in liquidation preference	—	—	—	7,971	—	—	—	—	—	—	7,971
Stock-based compensation	—	—	—	—	—	—	11	—	—	—	11
Income tax benefit from stock-based compensation	—	—	—	—	—	—	1	—	—	—	1
Common stock issuances	—	—	1	—	—	—	(44)	—	—	44	—
Transfer from retained earnings (accumulated deficit) to additional paid-in capital	—	—	—	—	—	—	28	(28)	—	—	—
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(6,495)	—	—	(6,495)
Dividend equivalent payments on expired stock options	—	—	—	—	—	—	—	(3)	—	—	(3)
Ending balance at December 31,	1	464	650	$ 72,171	$ 14,109	$ —	$ 3	$ (74,525)	$(7,995)	$(3,909)	$(146)

2011											
Balance as of December 31, 2011	1	464	650	$ 72,171	$ 14,109	$ —	$ 3	$ (74,525)	$ (7,995)	$ (3,909)	$ (146)
Comprehensive income:											
Net income	—	—	—	—	—	—	—	10,982	—	—	10,982
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	5,057	—	5,057
Comprehensive income	—	—	—	—	—	—	—	10,982	5,057	—	16,039
Increase in liquidation preference	—	—	—	165	—	—	—	—	—	—	165
Stock-based compensation	—	—	—	—	—	—	2	—	—	—	2
Income tax benefit from stock-based compensation	—	—	—	—	—	—	1	—	—	—	1
Common stock issuances	—	—	—	—	—	—	(24)	—	—	24	—
Transfer from retained earnings (accumulated deficit) to additional paid-in-capital	—	—	—	—	—	—	19	(19)	—	—	—
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(7,233)	—	—	(7,233)
Dividend equivalent payments on expired stock options	—	—	—	—	—	—	—	(1)	—	—	(1)
Ending balance at December 31, 2012	1	464	650	$ 72,336	$ 14,109	$ —	$ 1	$ (70,796)	$ (2,938)	$ (3,885)	$ 8,827
Balance as of December 31, 2012	1	464	650	$ 72,336	$ 14,109	$ —	$ 1	$ (70,796)	$ (2,938)	$ (3,885)	$ 8,827
Comprehensive income:											
Net income	—	—	—	—	—	—	—	48,668	—	—	48,668
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	2,932	—	2,932

Comprehensive income	—	—	—	—	—	—	—	48,668	2,932	—	51,600
Common stock issuances	—	—	—	—	—	—	(1)	—	—	—	(1)
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(47,591)	—	—	(47,591)
Ending balance at December 31, 2013	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (69,719)	$ (6)	$ (3,885)	$ 12,835

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Cash flows from operating activities			
Net income (loss)	$48,668	$10,982	$(5,266)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Derivative (gains) losses	(6,097)	(1,350)	4,721
Asset related amortization — premiums, discounts, and basis adjustments	4,627	4,624	2,063
Debt related amortization — premiums and discounts on certain debt securities and basis adjustments	(6,779)	(5,782)	(1,629)
Net discounts paid on retirements of other debt	(1,562)	(680)	(713)
Net premiums received from issuance of debt securities of consolidated trusts	3,534	3,897	4,091
(Gains) losses on extinguishment of debt securities of consolidated trusts and other debt	(446)	135	175
(Benefit) provision for credit losses	(2,465)	1,890	10,702
Losses on investment activity	1,545	2,680	2,368
Deferred income tax (benefit) expense	(23,422)	3	(117)
Purchases of held-for-sale mortgage loans	(23,103)	(25,340)	(16,550)
Sales of mortgage loans acquired as held-for-sale	28,131	21,769	14,027
Repayments of mortgage loans acquired as held-for-sale	167	59	54
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(1,302)	(1,269)	(1,169)
Change in:			
Accrued interest receivable	725	1,187	651
Accrued interest payable	(849)	(1,094)	(1,080)
Income taxes receivable or payable	117	(1,523)	(281)
Other, net	(2,957)	(1,722)	(1,727)
Net cash provided by operating activities	18,532	8,466	10,320
Cash flows from investing activities			
Purchases of trading securities	(53,753)	(33,880)	(47,977)
Proceeds from sales of trading securities	57,380	17,641	33,734
Proceeds from maturities of trading securities	12,542	31,106	14,545
Purchases of available-for-sale securities	(9,681)	(3,252)	(12,171)
Proceeds from sales of available-for-sale securities	24,675	1,729	2,643
Proceeds from maturities of available-for-sale securities	33,630	38,517	34,316
Purchases of held-for-investment mortgage loans	(79,028)	(79,492)	(44,129)
Repayments of mortgage loans acquired as held-for-investment	410,643	522,242	369,981
Decrease (increase) in restricted cash	2,327	13,471	(19,952)
Net proceeds from dispositions of real estate owned and other recoveries	11,274	11,265	12,665
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(24,820)	(25,519)	34,480
Derivative premiums and terminations and swap collateral, net	6,062	569	(4,447)
Net cash provided by investing activities	391,251	494,397	373,688
Cash flows from financing activities			

Proceeds from issuance of debt securities of consolidated trusts held by third parties	110,244	91,544	96,042
Repayments of debt securities of consolidated trusts held by third parties	(430,055)	(494,115)	(436,320)
Proceeds from issuance of other debt	701,236	718,252	1,024,323
Repayments of other debt	(740,842)	(831,393)	(1,078,050)
Increase in liquidation preference of senior preferred stock	—	165	7,971
Payment of cash dividends on senior preferred stock	(47,591)	(7,233)	(6,495)
Excess tax benefits associated with stock-based awards	—	1	1
Payments of low-income housing tax credit partnerships notes payable	(7)	(13)	(50)
Net cash used in financing activities	(407,015)	(522,792)	(392,578)
Net increase (decrease) in cash and cash equivalents	2,768	(19,929)	(8,570)
Cash and cash equivalents at beginning of year	8,513	28,442	37,012
Cash and cash equivalents at end of year	$11,281	$8,513	$28,442
Supplemental cash flow information			
Cash paid (received) for:			
Debt interest	$65,614	$75,328	$84,370
Net derivative interest carry	3,701	4,044	4,791
Income taxes	—	(18)	(1)
Non-cash investing and financing activities:			
Underlying mortgage loans related to guarantor swap transactions	340,900	358,074	280,621
Debt securities of consolidated trusts held by third parties established for guarantor swap transactions	340,990	358,074	280,621
Elimination of investments in securities and debt securities of consolidated trusts held by third parties related to net consolidation of variable interest entities for which we are the primary beneficiary	(1,876)	(4,590)	—
Transfers from held-for-investment mortgage loans to held-for-sale mortgage loans	224	6	—

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac was chartered by Congress in 1970 to stabilize the nation's residential mortgage market and expand opportunities for home ownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. We are a GSE 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: CONSERVATORSHIP AND RELATED MATTERS."

We are involved in the U.S. housing market by participating in the secondary mortgage market. We do not participate directly in the primary mortgage market. Our participation in the secondary mortgage market includes providing our credit guarantee for mortgages originated by mortgage lenders in the primary mortgage market and investing in mortgage loans and mortgage-related securities.

Our operations consist of three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. Our Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Our Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments; (b) managing the treasury function, including funding and liquidity, for the overall company; and (c) managing interest-rate risk for the overall company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Our Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. In our Multifamily segment, our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. See "NOTE 13: SEGMENT REPORTING" for additional information.

We are focused on the following primary business objectives: (a) reducing taxpayer exposure to losses by reducing and managing our overall risk profile, especially to mortgage-related risks; (b) supporting U.S. homeowners and renters by providing lenders with a constant source of liquidity for mortgage products even when other sources of financing are scarce; (c) building a commercially strong and efficient business enterprise; and (d) positioning the company, in particular our people and infrastructure, to succeed in a to-be-determined "future state." For information regarding these objectives, see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Business Objectives."

Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "GLOSSARY."

Basis of Presentation

The accompanying 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.

Our current accounting policies are described below. We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

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 (loss) includes certain adjustments to correct immaterial errors related to previously reported periods.

We recorded the cumulative effect of the correction of certain miscellaneous errors related to previously reported periods in the year ended December 31, 2013. We concluded that these errors are not material individually or in the aggregate to our previously issued consolidated financial statements for any of the periods affected, or to our earnings for the full year ended December 31, 2013, or to the trend of earnings.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect: (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (b) the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements, including, but not limited to, establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, assessing impairments on investments, and assessing our ability to realize net deferred tax assets. Actual results could be different from these estimates.

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Change in Estimate

Other-Than-Temporary Impairment of Non-Agency Mortgage-Related Securities

During the fourth quarter of 2013, we incorporated new information which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market. This enhancement resulted in a lower net present value of projected cash flows on our non-agency mortgage-related securities and increased our net other-than-temporary impairments recognized in earnings by $0.7 billion.

Single-Family Loan Loss Reserve Severity

During the second quarter of 2013, we updated our method of estimating loss severity rates for single-family loan loss reserves to change from the most recent six months of sales experience on our distressed property dispositions to the most recent three months of sales experience on our distressed property dispositions. This change did not have a material impact on our consolidated financial statements.

Consolidation and Equity Method of Accounting

The consolidated financial statements include our accounts and those of our subsidiaries. We consolidate entities in which we have a controlling financial interest. All intercompany transactions have been eliminated in consolidation. For each entity with which we are involved, we determine whether the entity should be consolidated in our financial statements. The method for determining whether a controlling financial interest exists varies depending on whether the entity is a VIE or non-VIE. A VIE is an entity: (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party; (b) where the group of equity holders does not have: (i) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance; (ii) the obligation to absorb the entity's expected losses; or (iii) the right to receive the entity's expected residual returns; or (c) where the voting rights of some investors are disproportionate to their obligation to absorb expected losses or their right to expected residual returns (or both) and substantially all of the entity's activities are conducted on behalf of an investor that has disproportionately few voting rights.

We consolidate VIEs in which we hold a controlling financial interest and are therefore deemed to be the primary beneficiary. An enterprise has a controlling financial interest in, and thus is deemed to be the primary beneficiary of, a VIE if it has both: (a) the power to direct the activities of the VIE that most significantly impact its economic performance; and (b) exposure to losses or benefits of the VIE that could potentially be significant to the VIE. We perform ongoing assessments to determine if we are the primary beneficiary of the VIEs with which we are involved and, as such, conclusions may change over time as the nature and extent of our involvement changes.

We use securitization trusts in our securities issuance process that are VIEs. We are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. See "NOTE 3: VARIABLE INTEREST ENTITIES" for more information. When we transfer assets into a VIE that we consolidate at the time of the transfer (or shortly thereafter), we recognize the assets and liabilities of the VIE at the amounts that they would have been recognized if they had not been transferred, and no gain or loss is recognized on these transfers. For all other VIEs that we consolidate, we recognize the assets and liabilities of the VIE at fair value, and we recognize a gain or loss for the difference between: (a) the fair value of the consideration paid and the fair value of any noncontrolling interests held by third parties; and (b) the net amount, as measured on a fair value basis, of the assets and liabilities consolidated.

For entities that are not VIEs, the usual condition of a controlling financial interest is ownership of a majority voting interest in an entity. We use the equity method of accounting for entities over which we have the ability to exercise significant influence, but not control.

Fair Value Measurements

Consistent with the accounting guidance for fair value measurements and disclosures, we use a three-level fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure the fair value of assets and liabilities, giving highest priority to quoted prices in active markets and lowest priority to unobservable inputs. 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 measurements under this hierarchy are distinguished among three levels: quoted market prices, observable inputs, and unobservable inputs. 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. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period. See "NOTE 16: FAIR VALUE DISCLOSURES" for additional information regarding the fair value measurements and the hierarchy.

Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities

Overview

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When we securitize mortgages that we purchase, we issue mortgage-related securities such as PCs that can be sold to investors or held by us. We issue mortgage-related securities in the form of PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions. Guarantor swaps are transactions where financial institutions exchange mortgage loans for PCs backed by these mortgage loans. Multilender swaps are similar to guarantor swaps, except that formed PC pools include loans that are contributed by more than one party. We issue PCs through various swap-based exchanges significantly more often than through cash-based transfers. We issue REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets in exchange for REMICs and Other Structured Securities. We also issue Other Guarantee Transactions to third parties in exchange for non-Freddie Mac mortgage-related securities.

PCs

Our PCs are pass-through debt securities that represent undivided beneficial interests in a pool of mortgages held by a securitization trust. For our fixed-rate PCs, we guarantee the timely payment of interest and principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We do not guarantee the timely payment of principal for ARM PCs; however, we do guarantee the full and final payment of principal.

In return for providing our guarantee of the payment of principal and interest, we earn a management and guarantee fee that is paid to us over the life of an issued PC, representing a portion of the interest collected on the underlying loans.

PC Trusts

We are the primary beneficiary of VIE securitization trusts that issue our single-family PCs and therefore consolidate the assets and liabilities of these trusts at either their: (a) carrying value, if the underlying assets are contributed by us to the trust; or (b) fair value, for those securitization trusts established for our guarantor swap program. Mortgage loans underlying our issued single-family PCs are recognized on our consolidated balance sheets as mortgage loans held-for-investment by consolidated trusts, at amortized cost. The corresponding single-family PCs held by third parties are recognized on our consolidated balance sheets as debt securities of consolidated trusts held by third parties. Refer to “Mortgage Loans” and “Debt Securities Issued” below for further information on the subsequent accounting treatment of these assets and liabilities, respectively.

REMICs and Other Structured Securities

Our single-family REMICs and Other Structured Securities use resecuritization trusts that meet the definition of a VIE and represent beneficial interests in groups of PCs and other types of mortgage-related assets. We create these securities primarily by using PCs or previously issued REMICs and Other Structured Securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of the tranches of our REMICs and Other Structured Securities. However, for REMICs and Other Structured Securities where we have already guaranteed the underlying assets, there is no incremental exposure to credit loss assumed by us.

With respect to the resecuritization trusts used for our single-family REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities, we do not have rights to receive benefits or obligations to absorb losses that could potentially be significant to the trusts because we have already provided a guarantee on the underlying assets. Additionally, our involvement with these trusts does not provide us with any power that would enable us to direct the significant economic activities of these entities. Although we may be exposed to prepayment risk through our ownership of the securities issued by these trusts, we do not have the ability through our involvement with the trust to impact the economic risks to which we are exposed. As a result, we are not the primary beneficiary of, and therefore do not consolidate, the resecuritization trusts used for REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities, unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust.

We receive a transaction fee from third parties for issuing our single-family REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities. We defer the portion of the transaction fee that is equal to the estimated value of our future administrative responsibilities for these issued REMICs and Other Structured Securities. These responsibilities include ongoing trustee services, administration of pass-through amounts, paying agent services, tax reporting, and other required services. We estimate the value of these future responsibilities based on quotes from third-party vendors who perform each type of service and, where quotes are not available, based on our estimates of what those vendors would charge. The remaining portion of the transaction fee relates to compensation earned in connection with structuring-related services we rendered to third parties and is allocated between REMICs and Other Structured Securities we retain, if any, and the REMICs and Other Structured Securities acquired by third parties, based on the relative fair value of the securities. The portion of the fee allocated to any REMICs and Other Structured Securities we retain is deferred as a carrying value adjustment and is amortized into interest income using the effective interest method over the contractual lives of these securities. The fee allocated to REMICs and Other Structured Securities acquired by third parties is recognized immediately in earnings as other income.

Our multifamily Other Structured Securities use securitization trusts that meet the definition of a VIE. Our multifamily Other Structured Securities typically involve our acquisition of tax-exempt multifamily housing revenue bonds, placement of

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those bonds in a securitization trust, and issuance of tax-exempt senior certificates as well as subordinate certificates that provide structural credit protection. The housing revenue bonds are collateralized by low- and moderate-income multifamily housing developments. We guarantee the principal and interest on the senior certificates and, because the underlying collateral is not already guaranteed by us, we receive a management and guarantee fee.

With respect to the securitization trusts used for our multifamily Other Structured Securities whose underlying assets are multifamily housing revenue bonds, our involvement with these trusts either does not provide us with any power that would enable us to direct the significant economic activities of these entities or rights to receive benefits or obligations to absorb losses that could potentially be significant to the trusts. As a result, we are not the primary beneficiary of, and therefore do not consolidate, the securitization trusts used for Other Structured Securities whose underlying assets are multifamily housing revenue bonds.

Other Guarantee Transactions

Other Guarantee Transactions are mortgage-related securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities. Other Guarantee Transactions typically involve us purchasing either the senior tranches from a non-Freddie Mac senior-subordinated securitization or single-class pass-through securities, placing the acquired assets into a securitization trust, providing a guarantee of the principal and interest of the acquired assets and issuing securities backed by these assets. To the extent that we are deemed to be the primary beneficiary of such a securitization trust, we recognize the mortgage loans underlying the Other Guarantee Transaction as mortgage loans held-for-investment, at amortized cost. Correspondingly, we recognize the issued securities held by third parties as debt securities of consolidated trusts. However, to the extent we are not deemed to be the primary beneficiary of such a securitization trust, we initially recognize a guarantee asset and a guarantee obligation at fair value to the extent a management and guarantee fee is charged. We do not receive transaction fees, apart from our management and guarantee fee, for these transactions.

Our primary Other Guarantee Transactions are multifamily K Certificates. In substantially all of these transactions, we guarantee only the most senior tranches of the securities and our initial involvement with the trusts that issue the K Certificates does not provide us with any power that would enable us to direct the significant economic activities of these entities. As a result, we are not the primary beneficiary of, and therefore do not consolidate, these trusts when K Certificates are initially issued. To the extent that our involvement with the trusts changes, we evaluate whether we have become the primary beneficiary.

Purchases and Sales of Freddie Mac Mortgage-Related Securities

PCs

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish the outstanding debt securities of the related consolidated trust. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to redeem the debt differs from its carrying value, adjusted for any related purchase commitments accounted for as derivatives.

When we sell PCs that have been issued by consolidated PC trusts, we recognize a liability to the third-party beneficial interest holders of the related consolidated trust as debt securities of consolidated trusts held by third parties. That is, our sale of PCs issued by consolidated PC trusts is accounted for as the issuance of debt.

Single-Class REMICs and Other Structured Securities

The collateral for our single-class REMICs and Other Structured Securities includes PCs and previously issued single-class REMICs and Other Structured Securities. We do not consolidate these resecuritization trusts as we are not deemed to be the primary beneficiary of the trusts. Our single-class REMICs and Other Structured Securities pass through all of the cash flows of the underlying PCs directly to the holders of the securities and are deemed to be substantially the same as the underlying PCs. As a result, when we purchase single-class REMICs and Other Structured Securities, we extinguish a pro rata portion of the outstanding debt securities of the related PC trust on our consolidated balance sheets.

When we sell single-class REMICs and Other Structured Securities, we recognize a liability to the third-party beneficial interest holders of the related consolidated PC trust as debt securities of consolidated trusts held by third parties. That is, our sale of single-class REMICs and Other Structured Securities is accounted for as the issuance of debt.

Multiclass REMICs and Other Structured Securities

The collateral for our single-family multiclass REMICs and Other Structured Securities includes PCs and previously issued REMICs and Other Structured Securities. We do not consolidate most of these resecuritization trusts as we are not deemed to be the primary beneficiary of the trusts unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust. In our single-family multiclass REMICs and Other Structured Securities, the cash flows of the underlying PCs are divided (e.g., stripped and/or time tranched). Due primarily to this division of cash flows, these securities are not deemed to be substantially the same as the underlying PCs. As a result, when we purchase single-family multiclass REMICs and Other Structured Securities, we record these securities as investments in debt securities rather than as the extinguishment of debt since we are investing in the debt securities of a non-consolidated entity. See “Investments in

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Securities" for further information regarding our accounting for investments in multiclass REMICs and Other Structured Securities.

We recognize, as assets, both the investment in single-family multiclass REMICs and Other Structured Securities and the mortgage loans backing the PCs held by the trusts which underlie the single-family multiclass REMICs and Other Structured Securities. Additionally, we recognize, as liabilities, the unsecured debt issued to third parties to fund the purchase of the single-family multiclass REMICs and Other Structured Securities as well as the debt issued to third parties of the PC trusts we consolidate which underlie the single-family multiclass REMICs and Other Structured Securities. This results in recognition of interest income from both assets and interest expense from both liabilities.

The collateral for our multifamily multiclass Other Structured Securities typically includes multifamily housing revenue bonds which are collateralized by low- and moderate-income multifamily housing developments. We do not consolidate the securitization trusts that issue these securities as we are not deemed to be the primary beneficiary of the trusts. When we purchase multifamily multiclass Other Structured Securities, we record them as investments in debt securities. See "Investments in Securities" for further information regarding our accounting for investments in multiclass REMICs and Other Structured Securities.

When we sell multiclass REMICs and Other Structured Securities in which we are not the primary beneficiary of the resecuritization trust, we account for the transfer in accordance with the accounting guidance for transfers of financial assets. To the extent the transfer of multiclass REMICs and Other Structured Securities qualifies as a sale, we de-recognize all assets sold and recognize all assets obtained and liabilities incurred. Any gain (loss) on the sale of multiclass REMICs and Other Structured Securities is reflected in our consolidated statements of comprehensive income as a component of other gains (losses) on investment securities recognized in earnings. To the extent the transfer of multiclass REMICs and Other Structured Securities does not qualify as a sale, we account for the transfer as a financing transaction and recognize a liability for the proceeds received from third parties in the transfer.

Other Guarantee Commitments

In certain circumstances, we also provide our guarantee of mortgage-related assets held by third parties, in exchange for a guarantee fee, without our securitization of the related assets. For example, we provide long-term standby commitments to certain of our single-family customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. We also provide guarantee commitments on multifamily housing revenue bonds that were issued by HFAs as well as guarantees under the TCLFP on securities backed by HFA bonds.

Cash and Cash Equivalents

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents. In addition, cash collateral that we have the right to use for general corporate purposes and that we obtain from counterparties to derivative contracts is recorded as cash and cash equivalents.

Restricted Cash and Cash Equivalents

Cash collateral accepted from counterparties that we do not have the right to use for general corporate purposes is recorded as restricted cash in our consolidated balance sheets. Restricted cash includes cash remittances received on the underlying assets of our consolidated trusts, which are deposited into a separate custodial account. These cash remittances include both scheduled and unscheduled principal and interest payments. The cash remittances are segregated in the separate custodial account until they are remitted to the PC, REMIC and Other Structured Securities holders on their respective security payment dates, and are not commingled with our general operating funds. As securities administrator, we invest the cash held in the custodial account, pending distribution to our PC, REMIC, and Other Structured Securities holders, in short-term investments and are entitled to the interest income earned on these short-term investments, which is recorded as interest income, other on our consolidated statements of comprehensive income.

Mortgage Loans

Upon acquisition, we classify a loan as either held-for-sale or held-for-investment. Mortgage loans that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment. Loans we acquire and which we intend to securitize using an entity we will consolidate will be classified as held-for-investment both prior to and subsequent to their securitization, in accordance with our intent and ability to hold such loans for the foreseeable future.

Held-for-investment mortgage loans are reported in our consolidated balance sheets at their outstanding UPB, net of deferred fees and other cost basis adjustments (including unamortized premiums and discounts, delivery fees and other pricing adjustments). These deferred items are amortized into interest income over the contractual lives of the loans using the effective interest method. We recognize interest income on an accrual basis except when we believe the collection of principal and interest in full is not reasonably assured. If the collection of principal and interest in full is not reasonably assured, we cease the accrual of interest income and any interest income accrued but uncollected is reversed.

Mortgage loans not classified as held-for-investment are classified as held-for-sale. Held-for-sale loans are reported at lower-of-cost-or-fair-value on our consolidated balance sheets. Any excess of a held-for-sale loan's cost over its fair value is

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recognized as a valuation allowance in other income on our consolidated statements of comprehensive income, with changes in this valuation allowance also being recorded in other income. Premiums, discounts, and other cost basis adjustments recognized upon acquisition on single-family loans classified as held-for-sale are deferred and not amortized. We elected the fair value option for multifamily mortgage loans held for sale that we intend to securitize and sell to investors. See "NOTE 16: FAIR VALUE DISCLOSURES — Fair Value Option — Multifamily Held-For-Sale Mortgage Loans" and "NOTE 16: FAIR VALUE DISCLOSURES — Fair Value Option — Changes in Fair Value under the Fair Value Option Election." Thus, these multifamily mortgage loans are measured at fair value on a recurring basis, with subsequent gains or losses related to changes in fair value reported in other income in our consolidated statements of comprehensive income. We do not have any held-for-sale loans reported at the lower-of-cost-or-fair-value on our consolidated balance sheets as of December 31, 2013 or 2012.

Cash flows related to mortgage loans held by our consolidated trusts are classified as either investing activities (e.g., principal repayments) or operating activities (e.g., interest payments received from borrowers included within net income (loss)). In addition, cash flows related to purchases of mortgage loans held-for-sale are classified in operating activities. When mortgage loans held-for-sale are sold or securitized, proceeds from the sale or securitization and any related gain or loss are classified in operating activities.

Non-Performing Loans

Non-performing loans consist of: (a) single-family and multifamily loans that have undergone a TDR; (b) single-family seriously delinquent loans; (c) multifamily loans that are three or more payments past due or in the process of foreclosure; and (d) multifamily loans that are deemed impaired based upon management judgment. We place mortgage loans on non-accrual status when we believe collectability of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment. A loan is considered past due if a full payment of principal and interest is not received within one month of its due date. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments.

A non-accrual mortgage loan may be returned to accrual status when the collectability of principal and interest in full is reasonably assured. For single-family loans, we determine that collectability is reasonably assured when we have received payment of principal and interest such that the loan becomes less than three monthly payments past due. For multifamily loans, the collectability of principal and interest is considered reasonably assured based on a quantitative and qualitative analysis of the factors specific to the loan being assessed. Upon a loan's return to accrual status, all previously reversed interest income is recognized and amortization of any basis adjustments into interest income is resumed.

Allowance for Loan Losses and Reserve for Guarantee Losses

The allowance for loan losses and the reserve for guarantee losses represent estimates of probable incurred credit losses. The allowance for loan losses pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets whereas the reserve for guarantee losses relates to single-family and multifamily loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. Total held-for-investment mortgage loans, net are shown net of the allowance for loan losses on our consolidated balance sheets. The reserve for guarantee losses is included within other liabilities on our consolidated balance sheets. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. We recognize probable incurred losses by recording a charge to the provision for credit losses in our consolidated statements of comprehensive income. Determining the appropriateness of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant judgment about matters that involve a high degree of subjectivity.

We estimate credit losses related to homogeneous pools of loans in accordance with the accounting guidance for contingencies. Accordingly, we maintain an allowance for loan losses on mortgage loans held-for-investment when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Loans that we evaluate for individual impairment are measured in accordance with the accounting guidance for receivables.

For both the single-family and multifamily portfolios, we charge off (in full or in part) our recorded investment in a loan in the period it is determined that the loan (or a portion thereof) is uncollectible, which generally occurs at final disposition of the loan through foreclosure or other loss event. However, if losses are evident prior to final disposition, earlier recognition of a charge-off is required by our policies. We also consider charge-offs for certain very small balance loans and upon the occurrence of certain events such as natural disasters. A charge-off is also recorded if we realize a specific credit loss upon the modification of a loan in a TDR. We do not have any established threshold in terms of days past due beyond which we partially or fully charge-off loans.

Single-Family Loans

We determine single-family loan loss reserves both on a collective and individual basis. For further discussion on individually impaired single-family loans, refer to “Impaired Loans” below.

We estimate loan loss reserves on homogeneous pools of single-family loans using a statistically based model that evaluates a variety of factors affecting collectability. The homogeneous pools of single-family mortgage loans are determined

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based on common underlying characteristics, including estimated current LTV ratios, trends in home prices, loan product type, and geographic region. In determining the loan loss reserves for single-family loans at the balance sheet date, we evaluate key inputs and factors including, but not limited to:

- estimated current LTV ratios and historical trends in home prices;
- loan product type;
- delinquency/default status and history;
- actual and estimated rates of collateral loss severity for similar loans;
- geographic location;
- loan age;
- sourcing channel;
- occupancy type;
- UPB at origination;
- expected ability to partially mitigate losses through loan modification or other alternatives to foreclosure;
- expected proceeds from mortgage insurance contracts that are contractually attached to a loan or other credit enhancements that were entered into contemporaneously with and in contemplation of a guarantee or loan purchase transaction;
- expected repurchases of mortgage loans by seller/servicers;
- counterparty credit of mortgage insurers and seller/servicers;
- pre-foreclosure real estate taxes and insurance;
- estimated selling costs should the underlying property ultimately be sold; and
- trends in the timing of foreclosures.

For additional information on estimated current LTV ratios and single-family loan loss reserves, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Quality of Mortgage Loans."

Freddie Mac relies upon third-parties to provide primary servicing for the performing and non-performing loan portfolio. At loan delivery, the seller provides us with the loan data, which includes loan characteristics and underwriting information. Each month, the servicers provide us with monthly loan level servicing data, including delinquency and loss information.

Certain loan servicing data is reported to us on a real-time basis, such as loan pay-offs and foreclosure events. However, certain monthly servicing data, including delinquency status, is delivered on a one-month delay. For example, December loan delinquency data delivered to Freddie Mac at the end of December or beginning of January reflects the loan delinquency status related to the December 1 payment cycle. We incorporate the delinquency status data into our allowance for loan loss calculation generally without adjustment for the one-month delay.

Our single-family loan loss reserve default models are estimated based on the most recent 12 months of actual loan performance data, including loan status and delinquency data reported by our servicers. The loan performance data provides a loan level history of delinquency, foreclosures, foreclosure alternatives, modifications, and seller/servicer repurchases. Our single-family loan loss reserve severity is estimated from the most recent: (a) three months of sales experience realized on our distressed property dispositions; and (b) six months of mortgage insurance recoveries and pre-foreclosure expenses on our distressed properties including REO, short sales, and third-party sales. Our single-family loan loss severity estimate also captures current business area practices and expectations about recoveries due to seller/servicer repurchases. We use historical trends in home prices in our single-family loan loss reserve process, primarily through the use of estimated current total LTV ratios in our default models and through the use of recent home price sales experience in our severity estimate. However, we do not use a forecast of trends in home prices in our single-family loan loss reserve process.

Our loan loss reserves reflect our best current estimates of incurred losses. Our loan loss reserve estimate includes projections related to loss mitigation activities, including loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination. These projections are based on our recent historical experience and current business practices and require significant management judgment. We monitor our projections of recoveries through seller/servicer repurchases to ensure that these projections are reasonable and consistent with our assessment of the credit capacity of our seller/servicer counterparties. For loans where foreclosure is probable, impairment is measured on an aggregate basis based upon an estimate of the underlying collateral value. At an individual loan level, our estimate also considers the effect of historical home price changes on borrower behavior and the impact of our loss mitigation actions, including our loan modification efforts.

Our reserve estimate also reflects our best projection of defaults we believe are likely to occur as a result of loss events that have occurred through December 31, 2013 and 2012, respectively. However, fluctuations in the national housing market, the uncertainty in other macroeconomic factors, and variations in success rates of modification efforts under HAMP and other loan workout programs, make estimating defaults inherently imprecise.

We validate and update our models and factors to capture changes in actual loss experience, as well as the effects of changes in underwriting practices and in our loss mitigation strategies. We also consider macroeconomic and other factors that impact the quality of the loans underlying our portfolio including regional housing trends, applicable home price indices, unemployment and employment dislocation trends, the effects of changes in government policies and programs, consumer credit statistics, and the extent of third-party insurance. We consider our assessment of these factors in determining our loan loss reserves.

We apply proceeds from primary mortgage insurance that is contractually attached to a loan and other credit enhancements, including repurchase recoveries, entered into contemporaneously with and in contemplation of a guarantee or loan purchase transaction, as a recovery of our recorded investment in a charged-off loan, up to the amount of loss recognized as a charge-off. Proceeds from credit enhancements received in excess of our recorded investment in charged-off loans are recorded as a decrease to REO operations expense in our consolidated statements of comprehensive income when received. We record receivables for proceeds from primary mortgage insurance and other credit enhancements, including repurchase recoveries, when the proceeds are estimable and collectability is reasonably assured. We generally accrue receivables for primary mortgage insurance, pool insurance, and most other types of credit enhancements as we have a history of collection of these types of recoveries and the amounts are estimable based on the contractual terms of the agreements. However, due to the uncertainty of the timing and amount of collections of repurchase recoveries, we generally do not accrue receivables for repurchase recoveries and instead record repurchase recoveries received on a cash basis.

Multifamily Loans

For multifamily loans identified as impaired, we individually determine the loan loss reserves. Refer to “Impaired Loans” below for further discussion on individually impaired multifamily loans. Multifamily loans evaluated collectively for impairment are aggregated into book year vintages and measured by benchmarking published historical commercial mortgage data to those vintages based upon available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Impaired Loans

We consider a loan to be impaired when it is probable, based on current information, that we will not receive all amounts due (including both principal and interest) in accordance with the contractual terms of the original loan agreement. Delays in the timing of our expected receipt of these amounts that are more than insignificant are considered in making this assessment.

Single-Family Loans

Individually impaired single-family loans primarily include loans that have undergone a TDR. These loans are measured individually for impairment as discussed in the "Troubled Debt Restructurings" section of this note that follows. All other single-family loans are aggregated and measured collectively for impairment based on similar risk characteristics. Collective impairment is measured as described above in the “Allowance for Loan Losses and Reserve for Guarantee Losses — Single-Family Loans” section of this note. If we determine that foreclosure on the underlying collateral is probable, we measure impairment based upon the fair value of the collateral, as reduced by estimated disposition costs and adjusted for estimated proceeds from insurance and similar sources. Interest income recognition on impaired single-family loans is discussed separately in the "Mortgage Loans — Non-Performing Loans" section of this note above.

Multifamily Loans

Multifamily impaired loans include TDRs, loans three monthly payments or more past due, and loans that are deemed impaired based on management judgment. Factors considered by management in determining whether a loan is impaired include, but are not limited to, the underlying property’s operating performance as represented by its current DSCR, available credit enhancements, estimated current LTV ratio, management of the underlying property, and the property’s geographic location.

Multifamily loans are generally measured individually for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as the repayment of these loans is generally provided from the cash flows of the underlying collateral and any associated credit-enhancement. Except for cases of fraud and certain other types of borrower defaults, most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan. Interest income recognition on multifamily impaired loans is subject to our non-accrual policy as discussed in "Mortgage Loans — Non-Performing Loans."

Troubled Debt Restructurings

Both single-family and multifamily loans which experience a modification to their contractual terms which results in a concession being granted to a borrower experiencing financial difficulties are considered TDRs. A concession is deemed granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. As appropriate, we also consider other qualitative factors in determining whether a concession is deemed granted, including whether the borrower's modified interest rate is consistent with that of a non-troubled borrower. We do not consider restructurings that result in a delay in payment that is insignificant to be a concession. We generally consider a delay in monthly amortizing payments of three months or less to be insignificant. We generally consider all other delays to be more than insignificant. A concession typically includes one or more of the following being granted to the borrower: (a) a trial period where the expected permanent modification will change our expectation of collecting all amounts due at the original contract rate; (b) a delay in payment that is more than insignificant; (c) a reduction in the contractual interest rate; (d) interest forbearance for a period of time that is not insignificant or forgiveness of accrued but uncollected interest amounts; (e) principal forbearance that is more than insignificant or a reduction in the principal amount of the loan; and (f) discharge of the borrower's obligation in Chapter 7 bankruptcy.

On July 1, 2011, we adopted an amendment to the accounting guidance related to the classification of loans as TDRs. This amendment clarified when a restructuring such as a loan modification is considered a TDR. For additional information, see "Recently Adopted Accounting Guidance — A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," below.

Impairment of a loan having undergone a TDR is generally measured as the excess of our recorded investment in the loan over the present value of the expected future cash flows, discounted at the loan's original effective interest rate for fixed-rate loans or at the loan's effective interest rate prior to the restructuring for ARM loans. Our expectation of future cash flows incorporates, among other items, an estimated probability of default which is based on a number of market factors as well as the characteristics of the loan, such as past due status. Subsequent to the restructuring date, interest income is recognized at the modified interest rate, subject to our non-accrual policy as discussed in "Mortgage Loans — Non-Performing Loans" above, with all other changes in the present value of expected future cash flows being recognized as a component of the provision for credit losses in our consolidated statements of comprehensive income.

Investments in Securities

Investments in securities consist primarily of mortgage-related securities. We classify securities as "available-for-sale" or "trading." We currently do not classify any securities as "held-to-maturity," although we may elect to do so in the future. Securities classified as available-for-sale and trading are reported at fair value with changes in fair value included in AOCI and other gains (losses) on investment securities recognized in earnings, respectively. See "NOTE 16: FAIR VALUE DISCLOSURES" for more information on how we determine the fair value of securities.

We elected the fair value option for certain available-for-sale mortgage-related securities, including investments in securities that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our initial recorded investment; or (b) are not of high credit quality at the acquisition date and are identified as within the scope of the accounting guidance for investments in beneficial interests in securitized financial assets. These securities are classified as trading securities. By electing the fair value option for these instruments, we reflect valuation changes through our consolidated statements of comprehensive income in the period they occur. For additional information on our election of the fair value option, see "NOTE 16: FAIR VALUE DISCLOSURES."

We record purchases and sales of securities that are exempt from the accounting guidance for derivatives and hedge accounting on a trade date basis. Securities underlying forward purchases and sales contracts that are not exempt from the requirements of derivatives and hedge accounting are recorded on the expected settlement date with a corresponding commitment recorded on the trade date.

For most of our investments in securities, interest income is recognized using the effective interest method. Deferred items, including premiums, discounts, and other basis adjustments, are amortized into interest income over the contractual lives of the securities.

For certain investments in securities, interest income is recognized using the prospective effective interest method. We specifically apply this accounting to beneficial interests in securitized financial assets that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment; (b) are not of high credit quality at the acquisition date; or (c) have been determined to be other-than-temporarily impaired. We recognize as interest income (over the life of these securities) the excess of all estimated cash flows attributable to these interests over their book value using the effective interest method. We update our estimates of expected cash flows periodically and recognize changes in the calculated effective interest rate on a prospective basis.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings.

If we intend to sell the security or believe it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the security's entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security's unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recorded in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. The present value of expected future cash flows represents our estimate of future contractual cash flows that we expect to collect, discounted at the original effective interest rate or the effective interest rate determined based on significantly improved cash flows subsequent to initial impairment.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. For information regarding important factors, judgments and assumptions, see "NOTE 7: INVESTMENTS IN SECURITIES — Impairment Recognition on Investments in Securities."

Gains and losses on the sale of securities are included in other gains (losses) on investment securities recognized in earnings, including those gains (losses) reclassified into earnings from AOCI. We use the specific identification method for determining the cost basis of a security in computing the gain or loss.

For securities classified as trading or available-for-sale and those securities where we elected the fair value option, we classify the cash flows as investing activities because we hold these securities for investment purposes. In cases where the transfer of available-for-sale securities represents a secured borrowing, we classify the related cash flows as financing activities.

Repurchase and Resale Agreements and Dollar Roll Transactions

We enter into repurchase and resale agreements primarily as an investor or to finance certain of our security positions. Such transactions are accounted for as secured financings because the transferor does not relinquish control over the transferred assets.

We also engage in dollar roll transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities. When these transactions involve securities issued by consolidated entities, they are treated as issuances and extinguishments of debt. When these transactions involve securities issued by entities we do not consolidate, they are treated as purchases and sales as the security initially transferred is not required to be the same or substantially the same as the security subsequently returned.

Debt Securities Issued

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. The debt securities of our consolidated trusts are prepayable without penalty at any time. Other debt represents short-term and long-term debt securities that we issue to third parties to fund our general business activities.

Both debt of our consolidated trusts and other debt, except for certain debt for which we elected the fair value option, are reported at amortized cost. Deferred items, including premiums, discounts, and hedging-related basis adjustments are reported as a component of total debt, net. Issuance costs are reported as a component of other assets. These items are amortized and reported through interest expense using the effective interest method over the contractual life of the related indebtedness. Amortization of premiums, discounts, and issuance costs begins at the time of debt issuance. Amortization of hedging-related basis adjustments begins upon the discontinuation of the related hedge relationship.

We elected the fair value option on certain debt securities of consolidated trusts held by third parties and certain other debt. The change in fair value for debt recorded at fair value is reported as other income in our consolidated statements of comprehensive income. For debt where we have elected the fair value option, upfront costs and fees are recognized in earnings as incurred and not deferred. For additional information on our election of the fair value option, see "NOTE 16: FAIR VALUE DISCLOSURES."

When we repurchase or call outstanding debt securities, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value in earnings as a component of gains (losses) on retirement of other debt. Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment or a modification of an existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security. The issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt security using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a modification of the existing debt. Fees paid to the creditor are deferred and amortized over the life of the modified unsecured debt security using the effective interest method and fees paid to third parties are expensed as incurred.

Cash flows related to debt securities issued by our consolidated trusts are classified as either financing activities (e.g., repayment of principal to PC holders) or operating activities (e.g., interest payments to PC holders included within net income (loss)). Other than interest paid, cash flows related to other debt are classified as financing activities. Interest paid on other debt is classified as operating activities.

Derivatives

Derivatives are reported at their fair value on our consolidated balance sheets. Derivatives in a net asset position, including net derivative interest receivable or payable, are reported as derivative assets, net. Similarly, derivatives in a net liability position, including net derivative interest receivable or payable, are reported as derivative liabilities, net. We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Changes in fair value and interest accruals on derivatives are recorded as derivative gains (losses) in our consolidated statements of comprehensive income.

We evaluate whether financial instruments that we purchase or issue contain embedded derivatives. We elected to measure newly acquired or issued financial instruments that contain embedded derivatives at fair value, with changes in fair value recorded in our consolidated statements of comprehensive income.

At December 31, 2013 and 2012, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. If it becomes probable the originally forecasted transaction will not occur, the associated deferred gain or loss in AOCI would be reclassified to earnings immediately.

In the consolidated statements of cash flows, cash flows related to the acquisition and termination of derivatives, other than forward commitments, are generally classified in investing activities. Cash flows related to forward commitments are classified within the section of the consolidated statements of cash flows in accordance with the cash flows of the financial instruments to which they relate.

REO

REO is initially recorded at fair value less costs to sell and is subsequently carried at the lower of cost or fair value less costs to sell. When we acquire REO, losses arise when the carrying value of the loan (including accrued interest) exceeds the fair value of the foreclosed property, net of estimated costs to sell and expected recoveries through credit enhancements. Losses are charged off against the allowance for loan losses at the time of REO acquisition. REO gains arise and are recognized immediately in earnings when the fair value of the foreclosed property less costs to sell plus expected recoveries through credit enhancements exceeds the recorded investment in the loan (including all amounts due from the borrower).

Amounts we expect to receive from third-party insurance (primary mortgage insurance and pool insurance) and most other credit enhancements are recorded as receivables when REO is acquired. The receivable is adjusted when the actual claim is filed and is reported as a component of other assets on our consolidated balance sheets. We do not record receivables for repurchase recoveries. We record these on a cash basis due to uncertainty of the timing and amount of collections.

Material development and improvement costs relating to REO are capitalized. Operating expenses specifically identifiable with an REO property are included in REO operations income (expense) in our consolidated statements of comprehensive income; all other expenses are recognized within other administrative expenses in our consolidated statements of comprehensive income. Declines in the fair value of REO are provided for and charged to REO operations income (expense). Any gains and losses from REO dispositions are included in REO operations income (expense).

Income Taxes

We use the asset and liability method of accounting for income taxes for financial reporting purposes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates as well as tax net operating loss and tax credit carryforwards. To the extent tax laws change, deferred tax assets and liabilities are adjusted, when necessary, in the period that the tax change is enacted. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that all or part of our tax benefits will not be realized. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income from current operations and from unrecognized tax benefits.

Income tax benefit (expense) includes: (a) deferred tax benefit (expense), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance; and (b) current tax benefit (expense), which represents the amount of tax currently payable to or receivable from a tax authority including any related interest and penalties plus amounts accrued for unrecognized tax benefits (also including any related interest and penalties). Income tax benefit (expense) excludes the tax effects related to adjustments recorded to equity, such as unrealized gains and losses related to available-for-sale securities.

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Regarding tax positions taken or expected to be taken (and any associated interest and penalties), we recognize a tax position so long as it is more likely than not that it will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We measure the tax position at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. See "NOTE 12: INCOME TAXES" for additional information.

Earnings Per Common Share

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

We have participating securities related to options and 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: (a) vested options to purchase common stock; and (b) vested and unvested 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. This warrant is included since it is unconditionally exercisable by the holder at a minimal cost. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for further information.

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 following common equivalent shares outstanding: (a) the weighted average shares related to stock options if the average market price during the period exceeds the exercise price; and (b) the weighted average of unvested 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. See "NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT) — Stock-Based Compensation" for additional information on our earnings-per-share calculation.

Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income (loss) plus after-tax changes in: (a) the unrealized gains and losses on available-for-sale securities; (b) the effective portion of derivatives accounted for as cash flow hedge relationships; and (c) defined benefit plans.

Recently Adopted Accounting Guidance

Fair Value Measurement

On January 1, 2012, we adopted an amendment to the accounting guidance pertaining to fair value measurement and disclosure. This amendment provided: (a) clarification about the application of existing fair value measurement and disclosure requirements; and (b) changes to the guidance for measuring fair value and disclosing information about fair value measurements. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Reconsideration of Effective Control for Repurchase Agreements

On January 1, 2012, we adopted an amendment to the accounting guidance for transfers and servicing with regard to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removed the criterion related to collateral maintenance from the transferor's assessment of effective control. It focuses the assessment of effective control on the transferor's rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. The adoption of this amendment did not have a material impact on our consolidated financial statements.

A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring

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On July 1, 2011, we adopted an amendment to the accounting guidance related to the classification of loans as TDRs, which clarifies when a restructuring such as a loan modification is considered a TDR. This amendment clarifies the guidance regarding a creditor's evaluation of whether a debtor is experiencing financial difficulty and whether a creditor has granted a concession to a debtor for purposes of determining if a restructuring constitutes a TDR.

Both single-family and multifamily loans that experience restructurings resulting in a concession being granted to a borrower experiencing financial difficulties are considered TDRs. The amendment provides guidance to determine whether a borrower is experiencing financial difficulties, which is largely consistent with the guidance for debtors. This change does not have a significant impact on our determination of whether a borrower is experiencing financial difficulties. Pursuant to this amendment, a concession is deemed to have been granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. The amendment also specifies that a concession shall not be determined by comparing the borrower's pre-restructuring effective interest rate to the post-restructuring effective interest rate. These changes resulted in a significant impact on our determination of whether a concession has been granted.

The amendment was effective for interim and annual periods beginning on or after June 15, 2011 and applied as of July 1, 2011 to restructurings occurring on or after January 1, 2011. We recognized additional provision for credit losses of $0.2 billion during the third quarter of 2011 due to the population of restructurings occurring in the first half of 2011 that became TDRs.

Please refer to "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS" for further disclosures regarding our loan restructurings accounted for and disclosed as TDRs and for discussion regarding how modifications and other loss mitigation activities are factored into our allowance for loan losses.

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

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued an amendment to the accounting guidance related to accounting for investments in qualified affordable housing projects. This amendment permits entities to elect to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendment is effective for interim and annual periods beginning after December 15, 2014 and is to be applied retrospectively, with early adoption permitted. We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued an amendment to the accounting guidance related to reclassifying residential real estate collateralized consumer mortgage loans upon foreclosure. This amendment clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This amendment is effective for interim and annual periods beginning after December 15, 2014 with early adoption permitted. This amendment can be adopted either prospectively or retrospectively. We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

Entry Into Conservatorship

On September 6, 2008, the Director of FHFA placed us into conservatorship. On September 7, 2008, Treasury and FHFA announced several actions regarding Freddie Mac and Fannie Mae. These actions included the execution of the Purchase Agreement, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock.

Business Objectives

We continue to operate under the direction of FHFA, as our Conservator. The conservatorship and related matters have had a wide-ranging impact on us, including our management, business, 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. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

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

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The Conservator continues to determine, and direct the efforts of the Board of Directors and management to address, the strategic direction for the company. While the Conservator has delegated certain authority to management to conduct business operations, many management decisions are subject to review and approval by FHFA and Treasury. In addition, management frequently receives directions from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecards). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability.

Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. However, some of our initiatives are expected to have an adverse impact on our near- and long-term financial results. Given the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions and our public mission, we may be required to take additional actions that could have a negative impact on our business, operating results or financial condition.

The Conservator is requiring us to contract our presence in the mortgage market and simplify our operations. The Conservator also stated that it is focusing on retaining value in the business operations of Freddie Mac and Fannie Mae, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed.

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan set forth objectives and steps FHFA is taking or will take to meet FHFA's obligations as Conservator. FHFA stated that the steps envisioned in the plan are consistent with each of the housing finance reform frameworks set forth in the report delivered by the Administration to Congress in February 2011, as well as with the leading congressional proposals previously introduced. FHFA indicated that the plan leaves open all options for Congress and the Administration regarding the resolution of the conservatorships and the degree of government involvement in supporting the secondary mortgage market in the future.

FHFA's plan provides lawmakers and the public with an outline of how FHFA, as Conservator, intends to guide Freddie Mac and Fannie Mae over the next few years, and identifies three strategic goals:

- Build. Build a new infrastructure for the secondary mortgage market.
- Contract. Gradually contract Freddie Mac's and Fannie Mae's dominant presence in the marketplace while simplifying and shrinking their operations.
- Maintain. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

The Conservatorship Scorecards, instituted by FHFA, established objectives, performance targets and measures, and provided the implementation roadmap for FHFA's strategic plan. We continue to align our resources and internal business plans to meet the goals and objectives provided to us by FHFA.

There is significant uncertainty as to the ultimate impact that our efforts to aid the housing and mortgage markets, including our efforts in connection with the MHA Program, will have on our future capital or liquidity needs. We are allocating significant internal resources to the implementation of the various initiatives under the MHA Program and to the servicing alignment initiative, which has increased, and will continue to increase, our expenses. We cannot currently estimate whether, or the extent to which, costs incurred in the near term from HAMP, HARP, or other MHA Program efforts may be offset, if at all, by the prevention or reduction of potential future costs of serious delinquencies and foreclosures due to these initiatives.

There is significant uncertainty as to our future, as the conservatorship has no specified termination date, and it is unknown what changes may occur to our business model during or following conservatorship, including whether we will continue to exist. The then Acting Director of FHFA stated on September 19, 2011 that "it ought to be clear to everyone at this point, given [Freddie Mac and Fannie Mae's] losses since being placed into conservatorship and the terms of the Treasury's financial support agreements, that [Freddie Mac and Fannie Mae] will not be able to earn their way back to a condition that allows them to emerge from conservatorship." The then Acting Director of FHFA stated on November 15, 2011 that "the long-term outlook is that neither [Freddie Mac nor Fannie Mae] will continue to exist, at least in its current form, in the future." We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations.

On February 11, 2011, the Administration delivered a report to Congress that lays out the Administration's plan to reform the U.S. housing finance market, including options for structuring the government's long-term role in a housing finance system in which the private sector is the dominant provider of mortgage credit. The report recommends winding down Freddie Mac and Fannie Mae, and states that the Administration will work with FHFA to determine the best way to responsibly reduce the role of Freddie Mac and Fannie Mae in the market and ultimately wind down both institutions. The report states that these efforts must be undertaken at a deliberate pace, which takes into account the impact that these changes will have on borrowers and the housing market.

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The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Administration’s belief that under the companies’ senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration’s plan.

The report identifies a number of policy levers that could be used to wind down Freddie Mac and Fannie Mae, shrink the government’s footprint in housing finance, and help bring private investors back to the mortgage market, including increasing guarantee fees, phasing in a 10% down payment requirement, reducing conforming loan limits, and winding down Freddie Mac and Fannie Mae’s investment portfolios, consistent with the senior preferred stock purchase agreements. These recommendations, if implemented, would have a material impact on our business volumes, market share, results of operations, and financial condition.

On December 23, 2011, President Obama signed into law the Temporary Payroll Tax Cut Continuation Act of 2011. Among its provisions, this law directed FHFA to require Freddie Mac and Fannie Mae to increase guarantee fees by no less than 10 basis points above the average guarantee fees charged in 2011 on single-family mortgage-backed securities. Effective April 1, 2012, at the direction of FHFA, the guarantee fee on single-family residential mortgages sold to Freddie Mac and Fannie Mae was increased by 10 basis points. Under the law, the proceeds we receive from this increase are being remitted to Treasury to fund the payroll tax cut, rather than retained by us.

On August 31, 2012, FHFA announced that it had directed Freddie Mac and Fannie Mae to further increase guarantee fees on single-family mortgages by an average of 10 basis points, which was implemented in 2012. In December 2013, FHFA announced a number of additional changes to our (and Fannie Mae's) guarantee fee rates that were scheduled to become effective in March and April of 2014. In January 2014, FHFA announced that it was delaying the implementation of these changes.

Purchase Agreement

Overview

On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. Under the Purchase Agreement, the $200 billion maximum amount of the commitment from Treasury was increased to accommodate the cumulative reduction in our net worth during 2010, 2011 and 2012. The amount of available funding remaining under the Purchase Agreement was $140.5 billion as of December 31, 2013. This amount will be reduced by any future draws.

The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury’s funding commitment, we issued to Treasury, as an aggregate initial commitment fee: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury for issuing the senior preferred stock or the warrant.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013.

For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as: (a) the total assets of

Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less; (b) our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend will accrue or be payable for that quarter. The applicable Capital Reserve Amount was $3 billion for 2013, will be $2.4 billion for 2014, and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The amounts payable for dividends on the senior preferred stock could be substantial and will have an adverse impact on our financial position and net worth. To the extent we draw on Treasury's funding commitment, the liquidation preference of the senior preferred stock is increased by the amount of funds we receive. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock.

As a result of the net worth sweep dividend provisions of the senior preferred stock, we do not have the authority over the long term to build and retain capital from the earnings generated by our business operations, or return capital to stockholders other than Treasury.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury's funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had previously waived the fee for all prior quarters.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock will increase further if we receive additional draws under the Purchase Agreement or if any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash (this quarterly commitment fee has been suspended). We may need to make additional draws in future periods due to a variety of factors that could adversely affect our net worth.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio. While the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury's consent.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends.

Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028.

Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
- terminate the conservatorship (other than in connection with a receivership);
- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with our liquidation by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;
- issue any subordinated debt;
- enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
- engage in transactions with affiliates unless the transaction is: (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant; (b) upon arm's length terms; or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The covenants generally also apply to our subsidiaries.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own. The Purchase Agreement, as revised in the August 2012 amendment, provides that we could not own mortgage assets with UPB in excess of $650 billion on December 31, 2012 and on December 31 of each year thereafter, may not own mortgage assets with UPB in excess of 85% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase Agreement, we

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also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain of our Other Guarantee Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; (b) without the prior written consent of Treasury, we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights to any person other than Freddie Mac or its wholly-owned subsidiaries; (c) we may not take any action that will result in an increase in the par value of our common stock; (d) unless waived or consented to in writing by Treasury, we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and (e) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

Termination Provisions

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances: (a) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (b) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (c) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

Third-party Enforcement Rights

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (a) the amount necessary to cure the payment defaults on our debt and Freddie

Mac mortgage guarantee obligations; and (b) the lesser of: (i) the deficiency amount; and (ii) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

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

The UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement, as amended on August 17, 2012, and FHFA regulation, may not exceed $553 billion at December 31, 2013 and was $461 billion at December 31, 2013. The annual 15% reduction in the size of our mortgage-related investments portfolio until it reaches $250 billion is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA. The 2013 Conservatorship Scorecard included a goal to reduce the December 31, 2012 mortgage-related investments portfolio balance (exclusive of agency securities, multifamily held-for-sale loans, and single-family loans purchased for cash) by selling 5% of less liquid mortgage-related assets. In November 2013, FHFA announced that we had achieved this scorecard objective.

Government Support for our Business

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. At September 30, 2013, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended December 31, 2013. Since conservatorship began through December 31, 2013, we have paid cash dividends of $71.3 billion to Treasury at the direction of the Conservator.

At December 31, 2013, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2013.

See “NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS” and “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT)” for more information on the terms of the conservatorship and the Purchase Agreement.

Housing Finance Agency Initiative

In 2009, we entered into a Memorandum of Understanding with Treasury, FHFA, and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide assistance to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. FHFA directed us and Fannie Mae to participate in the HFA initiative on a basis that is consistent with the goals of being commercially reasonable and safe and sound. Treasury’s participation in these assistance initiatives does not affect the amount of funding that Treasury can provide to Freddie Mac under the Purchase Agreement.

The primary initiatives are as follows:

- TCLFP — In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to provide $8.2 billion of credit and liquidity support, including outstanding interest at the date of the guarantee, for variable rate demand obligations, or VRDOs, previously issued by HFAs. This support was provided through the issuance of guarantees, which provide credit enhancement to the holders of such VRDOs and also create an obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury provided a credit and liquidity backstop on the TCLFP. These guarantees replaced existing liquidity facilities from other providers. The guarantees were scheduled to expire on December 31, 2012. However, Treasury gave TCLFP participants the option to extend their individual TCLFP facilities to December 31, 2015. Certain participants elected to extend their TCLFP facilities to December 2015.
- NIBP — In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to issue in total $15.3 billion of partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. Treasury purchased all of the pass-through securities issued by Freddie Mac and Fannie Mae. This initiative provided financing for HFAs to issue new housing bonds.

Treasury will bear the initial losses of principal up to 35% of total principal for these two initiatives combined, and thereafter Freddie Mac and Fannie Mae each will be responsible only for losses of principal on the securities that it issues to the extent that such losses are in excess of 35% of all losses under both initiatives. Treasury will bear all losses of unpaid interest. Under both initiatives, we and Fannie Mae were paid fees at the time bonds were securitized and are also paid ongoing fees for as long as the bonds remain outstanding.

Related Parties as a Result of Conservatorship

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the

U.S. government. Except for the transactions with Treasury discussed above in "Business Objectives," "Government Support for our Business" and "Housing Finance Agency Initiative" as well as in "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS," and "NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT)," no transactions outside of normal business activities have occurred between us and the U.S. government (or any of its related parties) during the years ended December 31, 2013, 2012 and 2011. In addition, we are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business in conservatorship. On October 7, 2013, FHFA announced the formation of Common Securitization Solutions, LLC℠ (CSS). CSS is equally-owned by Freddie Mac and Fannie Mae. In connection with the formation of CSS, we entered into a limited liability company agreement with Fannie Mae and anticipate entering into additional agreements with Fannie Mae relating to CSS in the future.

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NOTE 3: VARIABLE INTEREST ENTITIES

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

VIEs for which We are the Primary Beneficiary

See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities" for information on the nature of single-family PC trusts, REMICs and Other Structured Securities, and Other Guarantee Transactions.

Single-family PC Trusts

Our single-family PC trusts issue pass-through securities that represent undivided beneficial interests in pools of mortgages held by these trusts. PCs are designed so that we bear the credit risk inherent in the loans underlying the PCs through our guarantee of principal and interest payments on the PCs. The PC holders bear the interest rate or prepayment risk on the mortgage loans and the risk that we will not perform on our obligation as guarantor. For purposes of our consolidation assessments, our evaluation of power and economic exposure with regard to PC trusts focuses on credit risk because the credit performance of the underlying mortgage loans was identified as the activity that most significantly impacts the economic performance of these entities. We have the power to impact the activities related to this risk in our role as guarantor and master servicer.

Specifically, in our role as master servicer, we establish requirements for how mortgage loans are serviced and what steps are to be taken to mitigate credit losses (e.g., modification, foreclosure). Additionally, in our capacity as guarantor, we have the ability to remove defaulted mortgage loans out of the PC trust to help mitigate credit losses. See "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS" for further information regarding our removal of mortgage loans out of PC trusts. These powers allow us to direct the activities of the VIE (i.e., the PC trust) that most significantly impact its economic performance. In addition, we determined that our guarantee to each PC trust to provide principal and interest payments obligates us to absorb losses that could potentially be significant to the PC trusts. Accordingly, we concluded that we are the primary beneficiary of our single-family PC trusts.

At both December 31, 2013 and 2012, we were the primary beneficiary of, and therefore consolidated, single-family PC trusts with assets totaling $1.5 trillion, as measured using the UPB of issued PCs. The assets of each PC trust can be used only to settle obligations of that trust. In connection with our PC trusts, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancement. We also have credit protection for certain of our PC trusts that issue PCs backed by loans or certificates of federal agencies (such as FHA, VA, and USDA). See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Protection and Other Forms of Credit Enhancement" for additional information regarding third-party credit enhancements related to our PC trusts.

REMICs and Other Structured Securities

REMICs and Other Structured Securities are mortgage-related securities that we issue to third parties. We do not consolidate the trusts that issue these securities unless we hold substantially all of the beneficial interests in the trust and are therefore considered to be the primary beneficiary. We had investments of approximately $3.5 billion and $4.2 billion in UPB, as of December 31, 2013 and 2012, respectively, where we held substantially all the outstanding beneficial interests in the trusts and consolidated them on our balance sheets.

Other Guarantee Transactions

In Other Guarantee Transactions, we issue mortgage-related securities to third parties in exchange for non-Freddie Mac mortgage-related securities. The degree to which our involvement with securitization trusts that issue Other Guarantee Transactions provides us with power to direct the activities that most significantly impact the economic performance of these VIEs (e.g., the ability to direct the servicing of the underlying assets of these entities) and obligation to absorb losses that could potentially be significant to the VIEs varies by transaction. For all Other Guarantee Transactions, our variable interest in these VIEs represents some form of credit guarantee, whether covering all the issued beneficial interests or only the most senior ones. The nature of our credit guarantee typically determines whether we have power to direct the activities that most significantly impact the economic performance of the VIE.

We consolidate Other Guarantee Transactions when our credit guarantee is in a first loss position to absorb credit losses on the underlying assets of these entities as of the reporting date and we also have the ability to direct the servicing of the underlying assets, which is the power to direct the activities that most significantly impact the economic performance of these VIEs. For those Other Guarantee Transactions in which our credit guarantee is not in a first loss position to absorb credit losses on the underlying assets of these entities as of the reporting date (i.e., our credit guarantee is in a secondary loss position), or we do not have the ability to direct the servicing of the underlying assets, we are not the primary beneficiary, and we do not

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consolidate the VIE. Our consolidation determination took into consideration the specific facts and circumstances of our involvement with each of these entities. As a result, we have concluded that we are the primary beneficiary of Other Guarantee Transactions with underlying assets totaling $8.9 billion and $11.0 billion at December 31, 2013 and 2012, respectively.

VIEs for which We are not the Primary Beneficiary

The table below presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs. Our involvement with VIEs for which we are not the primary beneficiary generally takes one of two forms: (a) purchasing an investment in these entities; or (b) providing a guarantee to these entities. Our maximum exposure to loss for those VIEs in which we have purchased an investment is calculated as the maximum potential charge that we would recognize in earnings if that investment were to become worthless. This amount does not include other-than-temporary impairments or other write-downs that we previously recognized through earnings. Our maximum exposure to loss for those VIEs for which we have provided a guarantee represents the contractual amounts that could be lost under the guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements. 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.

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

	December 31, 2013				
		Mortgage-Related Security Trusts			
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Unsecuritized Multifamily Loans [3]	Other[1]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Restricted cash and cash equivalents	$—	$6	$ —	$ 8	$58
Investments in securities:					
Available-for-sale, at fair value	—	40,659	84,765	—	—
Trading, at fair value	—	9,349	7,414	—	—
Mortgage loans:					
Held-for-investment, unsecuritized	—	—	—	50,306	—
Held-for-sale	—	—	—	8,727	—
Accrued interest receivable	—	232	226	261	7
Other assets	—	833	14	407	477
Liabilities:					
Derivative liabilities, net	—	(3)	—	—	(35)
Other liabilities	—	(875)	(2)	(12)	(558)
Maximum Exposure to Loss	$—	$72,072	$ 92,559	$ 59,710	$10,415
Total Assets of Non-Consolidated VIEs[4]	$—	$84,731	$ 506,699	$ 105,120	$23,707

	December 31, 2012				
		Mortgage-Related Security Trusts			
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Unsecuritized Multifamily Loans[3]	Other[1]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Restricted cash and cash equivalents	$—	$24	$ —	$ 22	$119
Investments in securities:					
Available-for-sale, at fair value	—	58,515	110,583	—	—
Trading, at fair value	292	10,354	10,617	—	—
Mortgage loans:					
Held-for-investment, unsecuritized	—	—	—	62,245	—
Held-for-sale	—	—	—	14,238	—
Accrued interest receivable	—	324	350	326	7
Derivative assets, net	—	—	—	—	1
Other assets	—	558	2	381	482
Liabilities:					
Derivative liabilities, net	—	(1)	—	—	(40)

Other liabilities	—	(667)	(2)	(29)	(635)
Maximum Exposure to Loss	$292	$51,045	$ 128,475	$77,213	$10,871
Total Assets of Non-Consolidated VIEs(4)	$10,901	$59,302	$ 768,704	$130,512	$25,004

(1) For our involvement with non-consolidated asset-backed investment trusts, non-Freddie Mac security trusts, and certain other VIEs where we do not provide a guarantee, our maximum exposure to loss is computed as the carrying amount if the security is classified as trading or the amortized cost if the security is classified as available-for-sale for our investments and related assets recorded on our consolidated balance sheets, including any unrealized amounts recorded in AOCI for securities classified as available-for-sale. See "NOTE 7: INVESTMENTS IN SECURITIES" for additional information regarding our asset-backed investments and non-Freddie Mac securities.

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(2) Freddie Mac securities include our variable interests in single-family multiclass REMICs and Other Structured Securities, multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions that we do not consolidate. Our maximum exposure to loss includes guaranteed UPB of assets held by the non-consolidated VIEs related to multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions for which we record a guarantee asset (component of Other Assets) and guarantee obligation (component of Other Liabilities) on our consolidated balance sheets. Our maximum exposure to loss excludes most of our investments in single-family multiclass REMICs and Other Structured Securities as we already consolidate most of the collateral of these trusts on our consolidated balance sheets. Our investments in single-family REMICs and Other Structured Securities that are not consolidated do not give rise to any additional exposure to credit loss as we already consolidate the underlying collateral.

(3) For unsecuritized multifamily loans, our maximum exposure to loss includes accrued interest receivable associated with these loans. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for additional information about our unsecuritized multifamily loans.

(4) Except for unsecuritized multifamily loans, this represents the remaining UPB of assets held by non-consolidated VIEs using the most current information available, where our continuing involvement is significant. For unsecuritized multifamily loans, this represents the fair value of the property serving as collateral for the loan. We do not include the assets of our non-consolidated trusts related to single-family REMICs and Other Structured Securities backed by our PCs in this amount as we already consolidate the underlying collateral of these trusts on our consolidated balance sheets.

Mortgage-Related Security Trusts

Freddie Mac Securities

Freddie Mac securities related to our variable interests in non-consolidated VIEs primarily consist of our REMICs and Other Structured Securities and Other Guarantee Transactions. At both December 31, 2013 and 2012, our involvement with most of our REMICS and Other Structured Securities as well as certain Other Guarantee Transactions does not provide us with the power to direct the activities that most significantly impact the economic performance of these VIEs. As a result, we hold a variable interest in, but are not the primary beneficiary of those securitization trusts. For non-consolidated REMICs and Other Structured Securities and Other Guarantee Transactions, our investments are primarily included in either available-for-sale securities or trading securities on our consolidated balance sheets. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities" for additional information on accounting for purchases of securities issued by resecuritization trusts. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Non-Freddie Mac Securities

We invest in a variety of mortgage-related securities issued by third-parties, including non-Freddie Mac agency securities, CMBS, other private-label securities backed by various mortgage-related assets, and obligations of states and political subdivisions. These investments typically represent interests in trusts that consist of a pool of mortgage-related assets and act as vehicles to allow originators to securitize those assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk, including potential loss from the credit risk and interest-rate risk of the underlying pool of mortgages. The originators of the financial assets or the underwriters of the securities offering create the trusts and typically own the residual interest in the trust assets. See "NOTE 7: INVESTMENTS IN SECURITIES" for additional information regarding our non-Freddie Mac securities.

Our investments in these non-Freddie Mac securities at December 31, 2013 were made between 1994 and 2013. We are not generally the primary beneficiary of non-Freddie Mac securities trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. We were not the primary beneficiary of any significant non-Freddie Mac securities trusts as of December 31, 2013 or 2012. At both December 31, 2013 and 2012, our exposure was limited to the amount of our investment. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Unsecuritized Multifamily Loans

We purchase loans made to various multifamily real estate entities. We primarily purchase such loans for securitization. The loans we acquire usually are, at origination, equal to 80% or less of the value of the related underlying property. The remaining 20% of value is typically funded through equity contributions by the partners or members of the borrower entity. In a few cases, the 20% not funded through the loan we acquire also includes subordinate loans or mezzanine financing from third-party lenders.

We held more than 5,000 and 6,000 unsecuritized multifamily loans at December 31, 2013 and 2012, respectively. The UPB of our investments in these loans was $59.2 billion and $76.6 billion as of December 31, 2013 and 2012, respectively, and was included in unsecuritized held-for-investment mortgage loans, at amortized cost, and held-for-sale mortgage loans at fair value on our consolidated balance sheets. We are not generally the primary beneficiary of the multifamily real estate borrowing entities because the loans we acquire are passive in nature and do not provide us with the power to direct the activities of these entities that most significantly impact their economic performance. However, when a multifamily loan becomes delinquent, we may become the primary beneficiary of the borrowing entity depending upon the structure of this entity and the rights granted to us under the governing legal documents. At both December 31, 2013 and 2012, the amount of unsecuritized multifamily loans for which we could be considered the primary beneficiary of the underlying borrowing entity was not material. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for more information.

Other

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Our involvement with other VIEs primarily includes certain of our other mortgage-related guarantees and other guarantee commitments that we account for as derivatives.

At December 31, 2013 and 2012, we were the primary beneficiary of one and two, respectively, real estate entities that invest in multifamily property, related to credit-enhanced multifamily housing revenue bonds that were not deemed to be material. We were not the primary beneficiary of the remainder of other VIEs because our involvement in these VIEs is passive in nature and does not provide us with the power to direct the activities of the VIEs that most significantly impact their economic performance. See "Table 3.1 — Variable Interests in VIEs for which We are not the Primary Beneficiary" for the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our other variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs.

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

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

The table below summarizes the types of loans on our consolidated balance sheets as of December 31, 2013 and 2012.

Table 4.1 — Mortgage Loans

	December 31, 2013			December 31, 2012		
	Unsecuritized	Held by Consolidated Trusts	Total	Unsecuritized	Held by Consolidated Trusts	Total
	(in millions)					
Single-family:(1)						
Fixed-rate						
Amortizing	$113,597	$1,402,841	$1,516,438	$131,061	$1,356,030	$1,487,091
Interest-only	1,476	4,826	6,302	2,445	8,874	11,319
Total fixed-rate	115,073	1,407,667	1,522,740	133,506	1,364,904	1,498,410
Adjustable-rate						
Amortizing	1,935	65,429	67,364	2,630	67,067	69,697
Interest-only	4,576	23,841	28,417	7,323	31,590	38,913
Total adjustable-rate	6,511	89,270	95,781	9,953	98,657	108,610
Other Guarantee Transactions	—	8,431	8,431	—	10,407	10,407
FHA/VA and other governmental	553	3,354	3,907	1,285	3,062	4,347
Total single-family	122,137	1,508,722	1,630,859	144,744	1,477,030	1,621,774
Multifamily:(1)						
Fixed-rate	50,701	444	51,145	66,384	448	66,832
Adjustable-rate	8,467	—	8,467	10,182	—	10,182
Other governmental	3	—	3	3	—	3
Total multifamily	59,171	444	59,615	76,569	448	77,017
Total UPB of mortgage loans	181,308	1,509,166	1,690,474	221,313	1,477,478	1,698,791
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(4,817)	23,745	18,928	(5,376)	23,373	17,997
Fair value adjustments on loans held-for sale(2)	6	—	6	266	—	266
Allowance for loan losses on mortgage loans	(21,612)	(3,006)	(24,618)	(25,788)	(4,919)	(30,707)

held-for-investment						
Total mortgage loans, net	$154,885	$1,529,905	$1,684,790	$190,415	$1,495,932	$1,686,347
Mortgage loans, net:						
Held-for-investment	$146,158	$1,529,905	$1,676,063	$176,177	$1,495,932	$1,672,109
Held-for-sale	8,727	—	8,727	14,238	—	14,238
Total mortgage loans, net	$154,885	$1,529,905	$1,684,790	$190,415	$1,495,932	$1,686,347

(1) Based on UPB and excluding mortgage loans traded, but not yet settled.
(2) Consists of fair value adjustments associated with multifamily mortgage loans for which we have made a fair value election.

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During 2013 and 2012, we purchased $412.9 billion and $420.0 billion, respectively, in UPB of single-family mortgage loans, and $1.3 billion and $1.1 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment. Our sales of multifamily mortgage loans occur primarily through the issuance of multifamily K Certificates, which we categorize as Other Guarantee Transactions. During 2013 and 2012, we sold $28.3 billion and $20.8 billion, respectively, of held-for-sale multifamily mortgage loans. See “NOTE 14: FINANCIAL GUARANTEES” for more information on our issuances of Other Guarantee Transactions. We did not have significant reclassifications of mortgage loans into held-for-sale from held-for-investment during 2013.

Credit Quality of Mortgage Loans

We evaluate the credit quality of single-family loans using different criteria than the criteria we use to evaluate multifamily loans. The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As estimated current LTV ratios increase, the borrower’s equity in the home decreases, which negatively affects the borrower’s ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan. A second-lien mortgage 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 mortgages. As of both December 31, 2013 and 2012, based on data collected by us at loan delivery, approximately 14% of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first mortgage. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages. For further information about concentrations of risk associated with our single-family and multifamily mortgage loans, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.”

The table below presents information on the estimated current LTV ratios of single-family loans on our consolidated balance sheets, all of which are held-for-investment. Our current LTV ratio estimates are based on available data through the end of each respective period presented.

Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio

	As of December 31, 2013				As of December 31, 2012			
	Estimated Current LTV Ratio(1)				Estimated Current LTV Ratio(1)			
	≤ 80	> 80 to 100	> 100(2)	Total	≤ 80	> 80 to 100	> 100(2)	Total
	(in millions)							
Single-family loans:								
20 and 30-year or more, amortizing fixed-rate(3)	$819,509	$269,110	$124,491	$1,213,110	$699,386	$309,099	$188,048	$1,196,533
15-year amortizing fixed-rate(3)	270,211	19,658	5,748	295,617	249,666	18,473	5,433	273,572
Adjustable-rate(4)	56,208	6,714	1,578	64,500	50,764	10,341	4,845	65,950
Alt-A, interest-only, and option ARM(5)	29,927	21,564	25,089	76,580	27,642	24,030	52,057	103,729
Total single-family loans	$1,175,855	$317,046	$156,906	1,649,807	$1,027,458	$361,943	$250,383	1,639,784
Multifamily loans				50,874				63,032
Total recorded investment of held-for-investment loans				$1,700,681				$1,702,816

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

mortgages, either the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower’s purchase price; or (b) for refinance mortgages, a third-party appraisal. Changes in market value are derived from our internal index which measures price changes for repeat sales and refinancing activity on the same properties using Freddie Mac and Fannie Mae single-family mortgage acquisitions, including foreclosure sales. Estimates of the current LTV ratio include the credit-enhanced portion of the loan and exclude any secondary financing by third parties. The existence of a second lien reduces the borrower’s equity in the property and, therefore, can increase the risk of default.

(2) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with estimated current LTV ratios in excess of 100% was 9.9% and 12.7% as of December 31, 2013 and 2012, respectively.

(3) The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of December 31, 2013 and 2012, we have categorized UPB of approximately $43.8 billion and $43.4 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust in the future, such future rates are determined at the time of modification rather than at a subsequent date.

(4) Includes balloon/reset mortgage loans and excludes option ARMs.

(5) We have discontinued our purchases of Alt-A, interest-only, and option ARM loans. For reporting purposes: (a) 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 (b) loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

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For information about the payment status of single-family and multifamily mortgage loans, including the amount of such loans we deem impaired, see "NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS." For a discussion of certain indicators of credit quality for the multifamily loans on our consolidated balance sheets, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Multifamily Mortgage Portfolio."

Allowance for Loan Losses and Reserve for Guarantee Losses, or Loan Loss Reserves

Our loan loss reserves consist of our: (a) allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets; and (b) reserve for guarantee losses associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments, for which we have incremental credit risk.

A significant portion of the unsecuritized single-family loans on our consolidated balance sheets are seriously delinquent and/or TDR loans that we previously removed from our PC pools. These seriously delinquent and TDR loans typically have a higher associated allowance for loan loss than loans that remain in consolidated trusts. Single-family loans that remain in consolidated trusts are generally aggregated and measured collectively for impairment based on similar risk characteristics of the loans.

The table below presents our loan loss reserves activity for the single-family and multifamily loans that we own or guarantee.

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Table 4.3 — Detail of Loan Loss Reserves

	Year Ended December 31, 2013				2012			
	Allowance for Loan Losses		Reserve for Guarantee Losses[1]	Total	Allowance for Loan Losses		Reserve for Guarantee Losses[1]	Total
	Unsecuritized	Held By Consolidated Trusts			Unsecuritized	Held By Consolidated Trusts		
	(in millions)							
Single-family:								
Beginning balance	$25,449	$4,918	$141	$30,508	$30,406	$8,351	$159	$38,916
Provision (benefit) for credit losses	(3,995)	1,790	(42)	(2,247)	(3,186)	5,199	—	2,013
Charge-offs[2]	(8,181)	(804)	(10)	(8,995)	(12,559)	(950)	(11)	(13,520)
Recoveries[3]	3,810	503	—	4,313	2,136	126	—	2,262
Transfers, net[4]	4,404	(3,401)	(4)	999	8,652	(7,808)	(7)	837
Ending balance	$21,487	$3,006	$85	$24,578	$25,449	$4,918	$141	$30,508
Multifamily:								
Beginning balance	$339	$1	$42	$382	$506	$—	$39	$545
Provision (benefit) for credit losses	(208)	(1)	(9)	(218)	(132)	—	9	(123)
Charge-offs[2]	(7)	—	—	(7)	(34)	—	(2)	(36)
Recoveries[3]	1	—	—	1	—	—	2	2
Transfers, net[4]	—	—	(7)	(7)	(1)	1	(6)	(6)
Ending balance	$125	$—	$26	$151	$339	$1	$42	$382
Total:								
Beginning balance	$25,788	$4,919	$183	$30,890	$30,912	$8,351	$198	$39,461
Provision (benefit) for credit losses	(4,203)	1,789	(51)	(2,465)	(3,318)	5,199	9	1,890
Charge-offs[2]	(8,188)	(804)	(10)	(9,002)	(12,593)	(950)	(13)	(13,556)
Recoveries[3]	3,811	503	—	4,314	2,136	126	2	2,264
Transfers, net[4]	4,404	(3,401)	(11)	992	8,651	(7,807)	(13)	831
Ending balance	$21,612	$3,006	$111	$24,729	$25,788	$4,919	$183	$30,890
Total loan loss reserve as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities				1.37 %				1.71 %

(1) Loans associated with our reserve for guarantee losses are those loans that underlie our non-consolidated securitization trusts and other guarantee commitments and are evaluated for impairment on a collective basis. Our reserve for guarantee losses is included in other liabilities on our consolidated balance sheets.

(2) Charge-offs represent the amount of a loan that has been discharged to remove the loan from our consolidated balance sheet principally due to either foreclosure transfers or short sales. Charge-offs exclude $252 million and $308 million for the years ended December 31, 2013 and 2012, respectively, related to: (a) amounts recorded as losses on loans purchased within other expenses on our consolidated statements of comprehensive income, which relate to certain loans purchased under financial guarantees; or (b) cumulative fair value losses recognized through the date of foreclosure for Multifamily loans which we elected to carry at fair value at the time of our purchase. We record charge-offs and recoveries on loans held by consolidated trusts when a loss event (such as a foreclosure transfer or foreclosure alternative) occurs on a loan while it remains in a consolidated trust.

(3)

Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where: (a) a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements; or (b) we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a foreclosure transfer or a foreclosure alternative.

(4) For the years ended December 31, 2013 and 2012, consists of: (a) approximately $3.4 billion and $7.8 billion, respectively, of reclassified single-family reserves related to our removal of loans previously held by consolidated trusts; and (b) approximately $1.0 billion and $0.8 billion, respectively, attributable to capitalization of past due interest on modified mortgage loans.

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

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Table 4.4 — Net Investment in Mortgage Loans

	December 31, 2013			December 31, 2012		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
	(in millions)					
Recorded investment:						
Collectively evaluated	$1,551,667	$49,598	$1,601,265	$1,550,493	$60,836	$1,611,329
Individually evaluated	98,140	1,276	99,416	89,291	2,196	91,487
Total recorded investment	1,649,807	50,874	1,700,681	1,639,784	63,032	1,702,816
Ending balance of the allowance for loan losses:						
Collectively evaluated	(5,939)	(45)	(5,984)	(12,432)	(135)	(12,567)
Individually evaluated	(18,554)	(80)	(18,634)	(17,935)	(205)	(18,140)
Total ending balance of the allowance	(24,493)	(125)	(24,618)	(30,367)	(340)	(30,707)
Net investment in mortgage loans	$1,625,314	$50,749	$1,676,063	$1,609,417	$62,692	$1,672,109

A significant number of unsecuritized single-family mortgage loans on our consolidated balance sheets are individually evaluated for impairment while substantially all single-family mortgage loans held by our consolidated trusts are collectively evaluated for impairment. The ending balance of the allowance for loan losses associated with our held-for-investment unsecuritized mortgage loans represented approximately 12.9% and 12.8% of the recorded investment in such loans at December 31, 2013 and 2012, respectively. The ending balance of the allowance for loan losses associated with mortgage loans held by our consolidated trusts represented approximately 0.2% and 0.3% of the recorded investment in such loans as of December 31, 2013 and 2012, respectively.

Credit Protection and Other Forms of Credit Enhancement

In connection with many of our mortgage loans held-for-investment and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancements.

The table below presents the UPB of loans on our consolidated balance sheets or underlying our financial guarantees with credit protection and the maximum amounts of potential loss recovery by type of credit protection.

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Table 4.5 — Recourse and Other Forms of Credit Protection(1)

	UPB at		Maximum Coverage(2) at	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	(in millions)			
Single-family:				
Primary mortgage insurance	$203,470	$188,419	$50,823	$46,685
Risk transfer transactions(3)	56,903	—	1,183	—
Lender recourse and indemnifications	7,119	7,875	6,726	7,718
Pool insurance(4)	4,683	7,307	1,186	1,355
HFA indemnification(5)	4,051	6,270	3,323	3,323
Subordination(6)	2,644	2,960	399	503
Other credit enhancements	38	62	38	62
Total	$278,908	$212,893	$63,678	$59,646
Multifamily:				
K Certificates(7)	$59,326	$36,732	$10,601	$6,256
Subordination(6)	4,435	3,817	756	442
HFA indemnification(5)	905	1,112	699	699
Other credit enhancements	6,666	7,235	1,834	2,263
Total	$71,332	$48,896	$13,890	$9,660

(1) Includes the credit protection associated with unsecuritized mortgage loans, loans held by our consolidated trusts as well as our non-consolidated mortgage guarantees and excludes FHA/VA and other governmental loans. Except for subordination coverage, these amounts exclude credit protection associated with $11.5 billion and $13.8 billion in UPB of single-family loans underlying Other Guarantee Transactions as of December 31, 2013 and 2012, respectively, for which the information was not available. Also excludes repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards.

(2) Except for subordination and K Certificates, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements. For subordination and K Certificates coverage, this represents the UPB of the securities that are subordinate to our guarantee, which could provide protection by absorbing first losses.

(3) Represents: (a) STACR debt note transactions in which we issue and sell debt securities, the principal balance of which is subject to the credit and prepayment risk of a reference pool of single-family mortgage loans owned or guaranteed by Freddie Mac; and (b) a transaction in which we purchased an insurance policy on a portion of the mezzanine loss position that was not issued in one of the STACR debt note transactions. UPB amounts presented represent the UPB of the loans in the reference pool. Maximum coverage amounts presented represent the outstanding balance of the debt securities held by third parties as well as the remaining aggregate limit of insurance purchased from a third party.

(4) Maximum coverage amounts presented have been limited to the UPB at period end. Excludes approximately $1.8 billion and $3.3 billion in UPB at December 31, 2013 and 2012, respectively, where the related loans are also covered by primary mortgage insurance.

(5) Represents the amount of potential reimbursement of losses on securities we have guaranteed that are backed by state and local HFA bonds related to the HFA initiative, under which Treasury bears initial losses on these securities up to 35% of the original UPB issued under the HFA initiative on a combined program-wide basis. Treasury will also bear losses of unpaid interest.

(6) Represents Freddie Mac issued mortgage-related securities with subordination protection, excluding multifamily K Certificates and those securities backed by state and local HFA bonds related to the HFA initiative. Excludes mortgage-related securities where subordination coverage was exhausted. Maximum coverage amounts are limited

to the UPB.

(7) Represents multifamily K Certificates with subordination protection.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is provided on a loan-level basis. Pool insurance contracts provide insurance on a group of mortgage loans up to a stated aggregate loss limit. We have not purchased pool insurance on single-family loans since March 2008. During 2013 and 2012, we also reached the maximum limit of recovery on certain pool insurance contracts. For information about counterparty risk associated with mortgage insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers."

We executed two structured agency credit risk (STACR) debt note transactions during 2013 in which we issued unsecured debt securities that reduce our exposure to credit risk. In a STACR debt note transaction, we create a reference pool consisting of a large group of recently acquired single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine, and senior). We issue STACR debt notes that relate to the mezzanine tranches, though the notes are not backed or collateralized by mortgage loans in the reference pool. The principal balance of the STACR debt notes is reduced when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, this may reduce the total amount of payments we ultimately make on the STACR debt notes.

We also have credit enhancements protecting our multifamily mortgage portfolio. Subordination, primarily through our K Certificates, is the most prevalent type, whereby we mitigate our credit risk exposure by structuring our securities to sell the expected credit risk to private investors who purchase the subordinate tranches.

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We also have credit protection for certain of the mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA, and USDA). The total UPB of these loans was $3.9 billion and $4.3 billion as of December 31, 2013 and 2012, respectively.

NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS

Individually Impaired Loans

Individually impaired single-family loans include performing and non-performing TDRs, as well as loans acquired under our financial guarantees with deteriorated credit quality. Individually impaired multifamily loans include performing and non-performing TDRs, loans three monthly payments or more past due, and loans that are impaired based on management judgment. For a discussion of our significant accounting policies regarding impaired and non-performing loans, which are applied consistently for multifamily loans and single-family loan classes, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Total loan loss reserves consist of a specific valuation allowance related to individually impaired mortgage loans, and a general reserve for other probable incurred losses. Our recorded investment in individually impaired mortgage loans and the related specific valuation allowance are summarized in the table below by product class (for single-family loans).

Table 5.1 — Individually Impaired Loans

	Balance at December 31, 2013				For The Year Ended December 31, 2013		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis(1)
	(in millions)						
Single-family —							
With no specific allowance recorded(2):							
20 and 30-year or more, amortizing fixed-rate(3)	$5,927	$3,355	$—	$3,355	$3,370	$394	$34
15-year amortizing fixed-rate(3)	62	34	—	34	31	6	1
Adjustable rate(4)	19	13	—	13	13	1	—
Alt-A, interest-only, and option ARM(5)	1,758	1,038	—	1,038	978	72	6
Total with no specific allowance recorded	7,766	4,440	—	4,440	4,392	473	41
With specific allowance recorded:(6)							
20 and 30-year or more, amortizing fixed-rate(3)	75,633	74,554	(14,431)	60,123	69,922	2,127	282
15-year amortizing fixed-rate(3)	1,324	1,324	(43)	1,281	1,109	50	11
Adjustable rate(4)	967	962	(84)	878	855	22	6
Alt-A, interest-only, and option ARM(5)	17,210	16,860	(3,996)	12,864	16,526	369	69
Total with specific allowance recorded	95,134	93,700	(18,554)	75,146	88,412	2,568	368
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate(3)	81,560	77,909	(14,431)	63,478	73,292	2,521	316
15-year amortizing fixed-rate(3)	1,386	1,358	(43)	1,315	1,140	56	12
Adjustable rate(4)	986	975	(84)	891	868	23	6

Alt-A, interest-only, and option ARM[5]	18,968	17,898	(3,996)	13,902	17,504	441	75
Total single-family[7]	$102,900	$98,140	$(18,554)	$79,586	$92,804	$3,041	$409
Multifamily —							
With no specific allowance recorded[8]	$694	$681	$—	$681	$1,108	$48	$20
With specific allowance recorded	608	595	(80)	515	891	41	31
Total multifamily	$1,302	$1,276	$(80)	$1,196	$1,999	$89	$51
Total single-family and multifamily	$104,202	$99,416	$(18,634)	$80,782	$94,803	$3,130	$460

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	Balance at December 31, 2012				For The Year Ended December 31, 2012		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis[1]
	(in millions)						
Single-family —							
With no specific allowance recorded[2]:							
20 and 30-year or more, amortizing fixed-rate[3]	$6,582	$3,236	$—	$3,236	$3,136	$339	$46
15-year amortizing fixed-rate[3]	64	30	—	30	25	6	1
Adjustable rate[4]	19	12	—	12	7	—	—
Alt-A, interest-only, and option ARM[5]	1,799	857	—	857	847	63	11
Total with no specific allowance recorded	8,464	4,135	—	4,135	4,015	408	58
With specific allowance recorded:[6]							
20 and 30-year or more, amortizing fixed-rate[3]	67,473	66,501	(13,522)	52,979	55,431	1,632	279
15-year amortizing fixed-rate[3]	1,134	1,125	(55)	1,070	714	31	8
Adjustable rate[4]	883	874	(107)	767	558	14	5
Alt-A, interest-only, and option ARM[5]	16,946	16,656	(4,251)	12,405	14,278	326	82
Total with specific allowance recorded	86,436	85,156	(17,935)	67,221	70,981	2,003	374
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate[3]	74,055	69,737	(13,522)	56,215	58,567	1,971	325
15-year amortizing fixed-rate[3]	1,198	1,155	(55)	1,100	739	37	9
Adjustable rate [4]	902	886	(107)	779	565	14	5
Alt-A, interest-only, and option ARM[5]	18,745	17,513	(4,251)	13,262	15,125	389	93
Total single-family[7]	$94,900	$89,291	$(17,935)	$71,356	$74,996	$2,411	$432
Multifamily —							
With no specific allowance recorded[8]	$978	$966	$—	$966	$1,420	$61	$37
With specific allowance recorded	1,248	1,230	(205)	1,025	1,470	68	51
Total multifamily	$2,226	$2,196	$(205)	$1,991	$2,890	$129	$88
Total single-family and multifamily	$97,126	$91,487	$(18,140)	$73,347	$77,886	$2,540	$520

(1) Consists of income recognized during the period related to loans categorized as non-accrual.
(2) Individually impaired loans with no specific related valuation allowance primarily represent mortgage loans removed from PC pools and accounted for in accordance with the accounting guidance for loans and debt securities

acquired with deteriorated credit quality that have not experienced further deterioration.

(3) See endnote (3) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."

(4) Includes balloon/reset mortgage loans and excludes option ARMs.

(5) See endnote (5) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."

(6) Consists primarily of mortgage loans classified as TDRs.

(7) As of December 31, 2013 and 2012 includes $95.1 billion and $86.4 billion, respectively, of UPB associated with loans for which we have recorded a specific allowance, and $7.8 billion and $8.5 billion, respectively, of UPB associated with loans that have no specific allowance recorded. See endnote (2) for additional information.

(8) Individually impaired multifamily loans with no specific related valuation allowance primarily represent those loans for which the collateral value is 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.

Interest income foregone on individually impaired loans was $2.7 billion, $2.3 billion and $1.6 billion for the years ended December 31, 2013, 2012 and 2011 respectively.

Mortgage Loan Performance

We do not accrue interest on loans three months or more past due.

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

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Table 5.2 — Payment Status of Mortgage Loans[1]

December 31, 2013	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family —						
20 and 30-year or more, amortizing fixed-rate[2]	$1,157,057	$19,743	$6,675	$ 29,635	$1,213,110	$29,620
15-year amortizing fixed-rate[2]	293,286	1,196	271	864	295,617	863
Adjustable-rate[3]	62,987	495	147	871	64,500	871
Alt-A, interest-only, and option ARM[4]	62,356	2,898	1,157	10,169	76,580	10,162
Total single-family	1,575,686	24,332	8,250	41,539	1,649,807	41,516
Total multifamily	50,827	—	21	26	50,874	627
Total single-family and multifamily	$1,626,513	$24,332	$8,271	$ 41,565	$1,700,681	$42,143

December 31, 2012	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family —						
20 and 30-year or more, amortizing fixed-rate[2]	$1,125,996	$21,509	$8,051	$ 40,977	$1,196,533	$40,833
15-year amortizing fixed-rate[2]	270,730	1,320	338	1,184	273,572	1,177
Adjustable-rate[3]	63,736	614	212	1,388	65,950	1,383
Alt-A, interest-only, and option ARM[4]	82,438	3,439	1,582	16,270	103,729	16,237
Total single-family	1,542,900	26,882	10,183	59,819	1,639,784	59,630
Total multifamily	63,000	—	2	30	63,032	1,457
Total single-family and multifamily	$1,605,900	$26,882	$10,185	$ 59,849	$1,702,816	$61,087

(1) Based on recorded investment in the loan. Mortgage loans that have been modified are not counted as past due as long as the borrower is current under the modified terms. The payment status of a loan may be affected by temporary timing differences, or lags, in the reporting of this information to us by our servicers.
(2) See endnote (3) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."
(3) Includes balloon/reset mortgage loans and excludes option ARMs.
(4) See endnote (5) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."

We have the option under our PC agreements to remove mortgage loans that underlie our PCs under certain circumstances to resolve an existing or impending delinquency or default. Our practice generally has been to remove loans from PC trusts when the loans have been delinquent for 120 days or more. As of December 31, 2013, there were $1.1 billion in UPB of loans underlying our PCs that were 120 days or more delinquent, and that met our criteria for removing the loan from the PC trust. Generally, we remove these delinquent loans from the PC trust, and thereby extinguish the related PC debt at the next scheduled PC payment date, unless the loans proceed to foreclosure transfer, complete a foreclosure alternative or are paid in full by the borrower before such date.

When we remove mortgage loans from PC trusts, we reclassify the loans from mortgage loans held-for-investment by consolidated trusts to unsecuritized mortgage loans held-for-investment and record an extinguishment of the corresponding portion of the debt securities of the consolidated trusts. We removed $18.2 billion and $29.6 billion in UPB of loans from PC trusts (or purchased delinquent loans associated with other guarantee commitments) during the years ended December 31, 2013 and 2012.
The table below summarizes the delinquency rates of mortgage loans within our single-family credit guarantee and multifamily mortgage portfolios.

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Table 5.3 — Delinquency Rates

	December 31, 2013	December 31, 2012
Single-family:[1]		
Non-credit-enhanced portfolio (excluding Other Guarantee Transactions):		
Serious delinquency rate	1.99 %	2.62 %
Total number of seriously delinquent loans	183,822	244,533
Credit-enhanced portfolio (excluding Other Guarantee Transactions):		
Serious delinquency rate	4.34 %	6.83 %
Total number of seriously delinquent loans	56,794	90,747
Other Guarantee Transactions:[2]		
Serious delinquency rate	10.91 %	10.60 %
Total number of seriously delinquent loans	14,709	17,580
Total single-family:		
Serious delinquency rate	2.39 %	3.25 %
Total number of seriously delinquent loans	255,325	352,860
Multifamily:[3]		
Non-credit-enhanced portfolio:		
Delinquency rate	0.07 %	0.10 %
UPB of delinquent loans (in millions)	$46	$76
Credit-enhanced portfolio:		
Delinquency rate	0.11 %	0.36 %
UPB of delinquent loans (in millions)	$75	$172
Total Multifamily:		
Delinquency rate	0.09 %	0.19 %
UPB of delinquent loans (in millions)	$121	$248

(1) Single-family mortgage loans that have been modified are not counted as seriously delinquent if the borrower is less than three monthly payments past due under the modified terms. Serious delinquencies on single-family mortgage loans underlying certain REMICs and Other Structured Securities, Other Guarantee Transactions, and other guarantee commitments may be reported on a different schedule due to variances in industry practice.

(2) Single-family Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics, but some single-family Other Guarantee Transactions may provide inherent credit protections from losses due to underlying subordination, excess interest, overcollateralization and other features.

(3) Multifamily delinquency performance is based on UPB of mortgage loans that are two monthly payments or more past due or those in the process of foreclosure and includes multifamily Other Guarantee Transactions (e.g., K Certificates). Excludes mortgage loans that have been modified as long as the borrower is less than two monthly payments past due under the modified contractual terms.

We continue to implement a number of initiatives to refinance and modify loans, including the MHA Program and the servicing alignment initiative. Our implementation of the MHA Program, for our loans, includes the following: (a) an initiative to allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for the loan (i.e., our relief refinance mortgage, which is our implementation of HARP); (b) an initiative to modify mortgages for both homeowners who are in default and those who are at risk of imminent default (i.e., HAMP); and (c) an initiative designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales or to complete a deed in lieu of foreclosure transaction. As part of accomplishing certain of these initiatives, we pay various incentives to servicers and borrowers. We bear the full costs associated with these loan workout and foreclosure alternatives on mortgages that we own or guarantee, including the cost of any monthly payment reductions, and do not receive any reimbursement from Treasury.

Troubled Debt Restructurings

Single-Family TDRs

We require our single-family servicers to contact borrowers who are in default and to evaluate loan workout options in accordance with our requirements. We establish guidelines for our servicers to follow and provide them default management programs designed to help them manage non-performing loans more effectively and to assist borrowers in maintaining home ownership where possible, or facilitate foreclosure alternatives when continued homeownership is not an option. We require our single-family servicers to first evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure. We receive information related to loan workouts, such as completed modifications and loans in a modification trial period, and other alternatives to foreclosure from our servicers at the loan level on at least a monthly basis. For loans in a modification trial period, we do not receive the terms of the expected completed modification until the modification is completed. For these loans, we only receive notification that they are in a modification trial period. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Allowance for Loan Losses and Reserve for Guarantee Losses” for more detail.

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Repayment plans are agreements with the borrower that give the borrower a defined period of time to reinstate the mortgage by paying regular payments plus an additional agreed upon amount in repayment of the past due amount. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

Forbearance agreements are agreements between the servicer and the borrower where reduced payments or no payments are required during a defined period. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

For HAMP loan modifications, our servicers typically obtain information on income, assets, and other borrower obligations to consider eligibility for modification and determine modified loan terms. Under HAMP, the goal of a single-family loan modification is to reduce the borrower’s monthly mortgage payments to a specified percentage of the borrower’s gross monthly income, which may be achieved through a combination of methods, including: (a) interest rate reduction; (b) term extension; and (c) principal forbearance. Principal forbearance is when a portion of the principal is made non-interest-bearing and non-amortizing, but this does not represent principal forgiveness. Although HAMP contemplates that some servicers will also make use of principal forgiveness to achieve reduced payments for borrowers, we have only used forbearance of principal and have not used principal forgiveness in modifying our loans.

We implemented a non-HAMP standard loan modification initiative in late 2011, which replaced our previous non-HAMP modification initiative beginning January 1, 2012. Our HAMP and non-HAMP modification initiatives are available for borrowers experiencing what is generally expected to be a longer-term financial hardship. In July 2013, we implemented a streamlined (non-HAMP) modification initiative, which provides an additional modification opportunity to certain borrowers, and it is scheduled to end in December 2015. The modification that borrowers receive under this initiative will have the same mortgage terms as our non-HAMP standard modification. Borrowers are not required to apply for assistance or provide income or hardship documentation for this type of modification.

Both HAMP and our non-HAMP standard modification require a three month trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. After the final trial-period payment is received by our servicer, the borrower and servicer enter into the modification. We consider restructurings under these initiatives as TDRs at the inception of the trial period if the expected modification will result in a change in our expectation to collect all amounts due at the original contract rate. Since we do not receive the terms of the modification until completion of the trial period, we estimate the impairment for loans in a modification trial period that are considered TDRs using the average impairment recorded for completed modifications and the estimated likelihood of completion of the trial period. If the borrower fails to successfully complete the trial period, the impairment for the loan is then based on the original terms of the loan. If the borrower successfully completes the trial period, the impairment for the loan is then based on the modified terms of the loan. These subsequent adjustments to impairment are based on the success or failure of the borrower to complete the trial period and are recorded through the provision for credit losses.

During 2013 approximately 56% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and term extensions and approximately 36% involved principal forbearance in addition to interest rate reductions and term extensions. During 2013, the average term extension was 161 months and the average interest rate reduction was 2.2% on completed single-family loan modifications classified as TDRs.

Multifamily TDRs

The assessment as to whether a multifamily loan restructuring is considered a TDR contemplates the unique facts and circumstances of each loan. This assessment considers qualitative factors such as whether the borrower’s modified interest rate is consistent with that of a borrower having a similar credit profile at the time of modification. In certain cases, for maturing loans we may provide short-term loan extensions of up to one year with no changes to the effective borrowing rate. In other cases, we may make more significant modifications of terms for borrowers experiencing financial difficulty, such as reducing the interest rate or extending the maturity for longer than one year. In cases where we do modify the contractual terms of the loan, the changes in terms may be similar to those of single-family loans, such as an extension of the term, reduction of contractual rate, principal forbearance, or some combination of these features.

TDR Activity and Performance

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the year ended December 31, 2013 and 2012, based on the original category of the loan before the loan was classified as a TDR. Loans classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the loan would already have been classified as a TDR.

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Table 5.4 — TDR Activity, by Segment

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	# of Loans	Post-TDR Recorded Investment	# of Loans	Post-TDR Recorded Investment
	(dollars in millions)			
Single-family[1]				
20 and 30-year or more, amortizing fixed-rate[2]	101,538	$16,014	177,930	$27,076
15-year amortizing fixed-rate	11,671	825	17,549	1,176
Adjustable-rate[3]	3,604	574	6,496	977
Alt-A, interest-only, and option ARM[4]	17,770	3,941	35,012	7,834
Total Single-family	134,583	21,354	236,987	37,063
Multifamily	8	98	20	202
Total	134,591	$21,452	237,007	$37,265

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during the years ended December 31, 2013 and 2012, was $21.2 billion and $37.0 billion, respectively. During the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs, regardless of the borrowers' payment status and when the loans were not already classified as TDRs for other reasons. As a result, the 2012 period reflects the initial classification of such loans as TDRs.
(2) See endnote (3) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."
(3) Includes balloon/reset mortgage loans.
(4) See endnote (5) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."

The measurement of impairment for single-family TDRs is based on the excess of our recorded investment in the loan over the present value of the loan's expected future cash flows. For multifamily loans, we use an estimate of the fair value of the loan's collateral rather than the present value of expected future cash flows to determine the amount of impairment. Generally, restructurings of single-family loans that are TDRs have a higher allowance for loan losses than restructurings that are not considered TDRs because TDRs involve a concession being granted to the borrower. Our process for determining the appropriate allowance for loan losses for both single-family and multifamily loans considers the impact that our loss mitigation activities, such as loan restructurings, have on probabilities of default. For single-family loans evaluated individually and collectively for impairment that have been modified, the probability of default is affected by the incidence of redefault that we have experienced on similar loans that have completed a modification. For multifamily loans, the incidence of redefault on loans that have been modified does not directly affect the allowance for loan losses as our multifamily loans are generally evaluated individually for impairment based on the fair value of the underlying collateral. The process for determining the appropriate allowance for loan losses for multifamily loans evaluated collectively for impairment considers the incidence of redefault on loans that have completed a modification.

The table below presents the volume of payment defaults (i.e., loans that became two months delinquent or completed a loss event) of our TDR modifications based on the original category of the loan before modification and excludes loans subject to other loss mitigation activity that were classified as TDRs during the period. Substantially all of our completed single-family loan modifications classified as a TDR during 2013 resulted in a modified loan with a fixed interest rate.

Table 5.5 — Payment Defaults of Completed TDR Modifications, by Segment[1]

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	# of Loans	Post-TDR Recorded Investment[2]	# of Loans	Post-TDR Recorded Investment[2]

	(dollars in millions)			
Single-family				
20 and 30-year or more, amortizing fixed-rate[3]	14,964	$ 2,766	15,718	$ 2,905
15-year amortizing fixed-rate	471	52	716	73
Adjustable-rate	237	50	331	71
Alt-A, interest-only, and option ARM[4]	2,256	587	3,042	805
Total single-family	17,928	$ 3,455	19,807	$ 3,854
Multifamily	—	$ —	6	$ 82

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(1) Represents TDR loans that experienced a payment default during the period and had completed a modification during the year preceding the payment default. A payment default occurs when a borrower either: (a) became two or more months delinquent; or (b) completed a loss event, such as a short sale or foreclosure transfer. We only include payment defaults for a single loan once during each quarterly period within a year; however, a single loan will be reflected more than once if the borrower experienced another payment default in a subsequent quarterly period.
(2) Represents the recorded investment at the end of the period in which the loan was modified and does not represent the recorded investment as of December 31.
(3) See endnote (3) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."
(4) See endnote (5) of "Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio."

In addition to modifications, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During the years ended December 31, 2013 and 2012, 8,473 and 5,220 of such loans, respectively, with a post-TDR recorded investment of $1.4 billion and $0.9 billion, respectively, experienced a payment default.

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 the years ended December 31, 2013 and 2012, 17,225 and 9,390, respectively, of such loans (with a post-TDR recorded investment of $2.8 billion and $1.5 billion, respectively) experienced a payment default.

NOTE 6: REAL ESTATE OWNED

We obtain REO properties: (a) when we are the highest bidder at foreclosure sales of properties that collateralize non-performing single-family and multifamily mortgage loans owned by us; or (b) when a delinquent borrower chooses to transfer the mortgaged property to us in lieu of going through the foreclosure process (i.e., deed in lieu of foreclosure). Upon acquiring single-family properties, we establish a marketing plan to sell the property as soon as practicable by determining an estimated market value and listing it for sale with a real estate broker. Upon acquiring multifamily properties, we may operate them using third-party property management firms for a period to stabilize value and then sell the properties through commercial real estate brokers. However, certain jurisdictions require a period of time after foreclosure during which the borrower may reclaim the property. During the period when the borrower may reclaim the property, or we are completing the eviction process, we are not able to market the property and this extends our holding period for these properties. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for a discussion of our significant accounting policies for REO.

The table below provides a summary of the change in the carrying value of our combined single-family and multifamily REO balances. For the periods presented in the table below, the weighted average holding period for our disposed properties was less than one year.

Table 6.1 — REO

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Beginning balance — REO	$4,407	$5,827	$7,368
Additions	6,498	7,029	8,970
Dispositions	(6,303)	(8,449)	(10,511)
Ending balance — REO	4,602	4,407	5,827
Beginning balance, valuation allowance	(29)	(147)	(300)
Change in valuation allowance	(22)	118	153
Ending balance, valuation allowance	(51)	(29)	(147)
Ending balance — REO, net	$4,551	$4,378	$5,680

The REO balance, net at December 31, 2013 and 2012 associated with single-family properties was $4.5 billion and $4.3 billion, respectively, and the balance associated with multifamily properties was $10 million and $64 million, respectively. The Southeast region represented approximately 34% and 29% of our single-family REO additions during 2013 and 2012, respectively, based on the number of properties, and the North Central region represented approximately 29% and 33% of our single-family REO additions during these periods. Our single-family REO inventory consisted of 47,307 properties and 49,071 properties at December 31, 2013 and 2012, respectively. In recent years, the foreclosure process has been significantly slowed in many geographical areas, particularly in states that require a judicial foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying property to transition to REO. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for additional information about regional concentrations in our portfolio.

Our REO operations expenses include: (a) REO property expenses; (b) net gains or losses incurred on disposition of REO properties; (c) adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell; and (d) recoveries from insurance and other credit enhancements.

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An allowance for estimated declines in the REO fair value during the period properties are held reduces the carrying value of REO property. Excluding holding period valuation adjustments and recoveries, we recognized gains (losses) of $761 million, $693 million, and $(165) million on REO dispositions during 2013, 2012, and 2011 respectively. We increased (decreased) our valuation allowance for properties in our REO inventory by $58 million, $(7) million, and $304 million in 2013, 2012, and 2011, respectively.

REO property acquisitions that result from extinguishment of our mortgage loans held on our consolidated balance sheets are treated as non-cash transfers. The amount of non-cash acquisitions of REO properties during the years ended December 31, 2013, 2012, and 2011 was $6.1 billion, $6.8 billion, and $8.7 billion, respectively.

NOTE 7: INVESTMENTS IN SECURITIES

The table below summarizes amortized cost, estimated fair values, and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type. At December 31, 2013 and 2012, all available-for-sale securities are mortgage-related securities.

Table 7.1 — Available-For-Sale Securities

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Available-for-sale securities:				
Freddie Mac	$39,001	$1,847	$(189)	$40,659
Fannie Mae	10,140	660	(3)	10,797
Ginnie Mae	149	18	—	167
CMBS	29,151	1,524	(337)	30,338
Subprime	29,897	382	(2,780)	27,499
Option ARM	6,617	338	(381)	6,574
Alt-A and other	8,322	526	(142)	8,706
Obligations of states and political subdivisions	3,533	23	(61)	3,495
Manufactured housing	629	61	(6)	684
Total available-for-sale securities	$127,439	$5,379	$(3,899)	$128,919
December 31, 2012				
Available-for-sale securities:				
Freddie Mac	$53,965	$4,602	$(52)	$58,515
Fannie Mae	14,183	1,099	(2)	15,280
Ginnie Mae	183	26	—	209
CMBS	47,606	3,882	(181)	51,307
Subprime	35,503	83	(9,129)	26,457
Option ARM	7,454	48	(1,785)	5,717
Alt-A and other	11,861	244	(1,201)	10,904
Obligations of states and political subdivisions	5,647	154	(3)	5,798
Manufactured housing	716	24	(31)	709
Total available-for-sale securities	$177,118	$10,162	$(12,384)	$174,896

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

The table below shows the fair value of available-for-sale securities in a gross unrealized loss position, and whether they have been in that position less than 12 months, or 12 months or greater, including the non-credit-related portion of other-than-temporary impairments, which have been recognized in AOCI.

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Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position

December 31, 2013	Less than 12 Months				12 Months or Greater				Total			
		Gross Unrealized Losses				Gross Unrealized Losses				Gross Unrealized Losses		
	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Total	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Total	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	To
	(in millions)											
Available-for-sale securities:												
Freddie Mac	$7,957	$—	$(144)	$(144)	$649	$—	$(45)	$(45)	$8,606	$—	$(189)	$(1
Fannie Mae	248	—	(2)	(2)	19	—	(1)	(1)	267	—	(3)	(3
CMBS	1,147	(7)	(78)	(85)	1,992	(16)	(236)	(252)	3,139	(23)	(314)	(33
Subprime	472	(19)	—	(19)	19,103	(2,448)	(313)	(2,761)	19,575	(2,467)	(313)	(2,
Option ARM	77	(2)	—	(2)	2,608	(374)	(5)	(379)	2,685	(376)	(5)	(38
Alt-A and other	262	(5)	—	(5)	1,854	(113)	(24)	(137)	2,116	(118)	(24)	(14
Obligations of states and political subdivisions	1,885	(7)	(49)	(56)	24	—	(5)	(5)	1,909	(7)	(54)	(61
Manufactured housing	—	—	—	—	65	(4)	(2)	(6)	65	(4)	(2)	(6
Total available-for-sale securities in a gross unrealized loss position	$12,048	$(40)	$(273)	$(313)	$26,314	$(2,955)	$(631)	$(3,586)	$38,362	$(2,995)	$(904)	$(3

December 31, 2012	Less than 12 Months				12 Months or Greater				Total			
		Gross Unrealized Losses				Gross Unrealized Losses				Gross Unrealized Losses		
	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Total	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Total	Fair Value	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	To
	(in millions)											
Available-for-sale securities:												
Freddie Mac	$1,811	$—	$(25)	$(25)	$1,872	$—	$(27)	$(27)	$3,683	$—	$(52)	$(5
Fannie Mae	170	—	—	—	55	—	(2)	(2)	225	—	(2)	(2
CMBS	340	—	(3)	(3)	3,425	(22)	(156)	(178)	3,765	(22)	(159)	(18
Subprime	298	(23)	—	(23)	25,676	(7,830)	(1,276)	(9,106)	25,974	(7,853)	(1,276)	(9,
Option ARM	82	(3)	—	(3)	5,182	(1,759)	(23)	(1,782)	5,264	(1,762)	(23)	(1,
Alt-A and other	50	(4)	—	(4)	7,938	(961)	(236)	(1,197)	7,988	(965)	(236)	(1,
Obligations of states and political subdivisions	37	—	(1)	(1)	45	—	(2)	(2)	82	—	(3)	(3
	46	—	—	—	222	(26)	(5)	(31)	268	(26)	(5)	(31

Manufactured housing												
Total available-for-sale securities in a gross unrealized loss position	$2,834	$(30)	$(29)	$(59)	$44,415	$(10,598)	$(1,727)	$(12,325)	47,249	$(10,628)	$(1,756)	$(1

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

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

At December 31, 2013, total gross unrealized losses on available-for-sale securities were $3.9 billion. The gross unrealized losses relate to 994 individual lots representing 956 separate securities, including securities with non-credit-related other-than-temporary impairments recognized in AOCI. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for a single security may be in an unrealized gain position while other lots for that security may be in an unrealized loss position, depending upon the amortized cost of the specific lot.

Impairment Recognition on Investments in Securities

We recognize impairment losses on available-for-sale securities within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings when we conclude that a decrease in the fair value of a security is other-than-temporary. For information regarding our evaluation of our available-for-sale securities for impairment, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Investments in Securities."

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The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Important factors include, but are not limited to:

- whether we intend to sell the security or it is more likely than not that we will be required to sell the security before sufficient time elapses to recover all unrealized losses;
- the use of a third-party model for single-family non-agency mortgage-related securities that considers the credit performance of the underlying collateral, including current LTV ratio, delinquency status, servicer performance, loan modification terms and status, and borrower credit information. The model also incorporates assumptions about the economic environment, including future home prices, unemployment, and interest rates to project underlying collateral prepayment speeds, default rates, loss severities, and delinquency rates. Our estimation approach for CMBS includes the use of a separate third-party model that utilizes underlying collateral performance, current and expected credit enhancements, and incorporates assumptions about the underlying collateral cash flows; and
- the incorporation of security-level subordination information and the priority of cash flow payments by the models to project and estimate cash flows expected to be collected for each security.

See “Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position” for the length of time our available-for-sale securities have been in an unrealized loss position. Also see “Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities” for the modeled default rates and severities that were used to determine whether our senior interests in certain non-agency mortgage-related securities would experience a cash shortfall.

As noted in “Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings,” our net impairment on available-for-sale securities during 2013 includes certain securities that we have the intent to sell prior to the recovery of the unrealized loss. In cases where we have the intent to sell or it is more likely than not that we will be required to sell the security before recovery of its amortized cost, the security’s entire decline in fair value would be deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. For the remaining available-for-sale securities in an unrealized loss position at December 31, 2013, we have asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

Freddie Mac and Fannie Mae Securities

We record the purchase of mortgage-related securities issued by Fannie Mae as investments in securities in accordance with the accounting guidance for investments in debt and equity securities. In contrast, our purchase of mortgage-related securities that we issued (e.g., PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions) is recorded as either investments in securities or extinguishment of debt securities of consolidated trusts depending on the nature of the mortgage-related security that we purchase. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities” for additional information.

We hold these investments in securities that are in an unrealized loss position at least to recovery and typically to maturity. As the principal and interest on these securities are guaranteed and we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the securities' amortized cost basis, we consider these unrealized losses to be temporary.

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

We believe the unrealized losses on the non-agency mortgage-related securities we hold are a result of poor underlying collateral performance, limited liquidity, and risk premiums. Our review of the securities backed by subprime, option ARM, and Alt-A and other loans includes the third-party loan level default modeling and analyses of the individual securities based on underlying collateral performance, including the collectability of amounts from bond insurers. In evaluating collectability from bond insurers, we consider factors that affect both the bond insurers’ financial performance and ability to pay their obligations. We consider loan level information including estimated current LTV ratios, FICO scores, and other loan level characteristics. For additional information regarding bond insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers."

The table below presents the modeled attributes, including default rates, prepayment rates, and severities, without regard to subordination, that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

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Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities

	December 31, 2013				
			Alt-A[1]		
	Subprime First Lien[2]	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
	(dollars in millions)				
Issuance Date					
2004 and prior:					
UPB	$896	$49	$498	$336	$342
Weighted average collateral defaults[3]	37 %	23 %	13 %	31 %	19 %
Weighted average collateral severities[4]	58 %	46 %	47 %	43 %	37 %
Weighted average voluntary prepayment rates[5]	7 %	8 %	11 %	7 %	8 %
Average credit enhancements[6]	38 %	4 %	15 %	15 %	12 %
2005:					
UPB	$3,687	$2,221	$714	$591	$3,068
Weighted average collateral defaults[3]	46 %	34 %	20 %	40 %	24 %
Weighted average collateral severities[4]	60 %	51 %	46 %	48 %	41 %
Weighted average voluntary prepayment rates[5]	4 %	7 %	9 %	7 %	9 %
Average credit enhancements[6]	46 %	3 %	— %	21 %	2 %
2006:					
UPB	$16,547	$4,870	$397	$846	$907
Weighted average collateral defaults[3]	54 %	44 %	28 %	47 %	26 %
Weighted average collateral severities[4]	61 %	53 %	47 %	53 %	40 %
Weighted average voluntary prepayment rates[5]	2 %	6 %	8 %	6 %	10 %
Average credit enhancements[6]	5 %	(5)%	— %	(9)%	(3)%
2007:					
UPB	$18,287	$3,286	$138	$1,085	$225
Weighted average collateral defaults[3]	53 %	44 %	47 %	46 %	43 %
Weighted average collateral severities[4]	61 %	52 %	52 %	52 %	48 %
Weighted average voluntary prepayment rates[5]	2 %	6 %	6 %	6 %	7 %
Average credit enhancements[6]	4 %	4 %	(1)%	(20)%	— %
Total:					
UPB	$39,417	$10,426	$1,747	$2,858	$4,542
Weighted average collateral defaults[3]	52 %	42 %	22 %	43 %	25 %
	61 %	52 %	47 %	51 %	41 %

Weighted average collateral severities(4)					
Weighted average voluntary prepayment rates(5)	2 %	6 %	9 %	6 %	9 %
Average credit enhancements(6)	9 %	— %	4 %	(4)%	1 %

(1) Excludes non-agency mortgage-related securities backed by other loans, which primarily consist of securities backed by home equity lines of credit.

(2) Excludes non-agency mortgage-related securities backed exclusively by subprime second liens. Certain securities identified as subprime first lien may be backed in part by subprime second-lien loans, as the underlying loans of these securities were permitted to include a small percentage of subprime second-lien loans.

(3) The expected cumulative default rate is expressed as a percentage of the current collateral UPB.

(4) The expected average loss given default is calculated as the ratio of cumulative loss over cumulative default for each security.

(5) The security's voluntary prepayment rate represents the average of the monthly voluntary prepayment rate weighted by the security's outstanding UPB.

(6) Positive values reflect the amount of subordination and other financial support (excluding credit enhancement provided by bond insurance) that will incur losses in the securitization structure before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own; divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

In evaluating the non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans for other-than-temporary impairment, we noted that the percentage of securities that were AAA-rated and the percentage that were investment grade declined significantly since acquisition. While these ratings have declined, the ratings themselves are not determinative that a loss is more or less likely. While we may consider credit ratings in our analysis, we believe that our detailed security-by-security analyses provide a more comprehensive view of the ultimate collectability of contractual amounts due to us.

Our analysis is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available. While it is possible that, under certain conditions, collateral losses on our remaining available-

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for-sale securities for which we have not recorded an impairment charge could exceed our credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2013.

Commercial Mortgage-Backed Securities

CMBS are exposed to stresses in the commercial real estate market. We use an external model to identify securities that may have an increased risk of failing to make their contractual payments. We then perform an analysis of the underlying collateral on a security-by-security basis to determine whether we will receive all of the contractual payments due to us. While it is possible that, under certain conditions, collateral losses on our CMBS for which we have not recorded an impairment charge could exceed our credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2013.

Obligations of States and Political Subdivisions

These investments consist of housing revenue bonds. We believe the unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates and liquidity and risk premiums. We believe that any credit risk related to these securities is minimal because of the issuer guarantees provided on these securities.

Bond Insurance

We rely on bond insurance to provide credit protection on some of our non-agency mortgage-related securities. Circumstances in which: (a) it is expected that a principal and interest shortfall will occur; and (b) there is substantial uncertainty surrounding a bond insurer's ability to pay all future claims can give rise to recognition of other-than-temporary impairment recognized in earnings. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers" for additional information.

Other-Than-Temporary Impairments on Available-for-Sale Securities

The table below summarizes our net impairment of available-for-sale securities recognized in earnings by security type.

Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings For the Year Ended December 31,		
	2013	2012	2011
		(in millions)	
Available-for-sale securities:[1]			
CMBS	$(14)	$(138)	$(353)
Subprime	(1,258)	(1,274)	(1,315)
Option ARM	(58)	(556)	(424)
Alt-A and other	(179)	(196)	(198)
Manufactured housing	(1)	(4)	(11)
Total net impairment of available-for-sale securities recognized in earnings	$(1,510)	$(2,168)	$(2,301)

(1) Includes $568 million, $0 million, and $181 million of other-than-temporary impairments recognized in earnings for the years ended December 31, 2013, 2012, and 2011, respectively, as we had the intent to sell the related securities before recovery of their amortized cost basis.

The table below presents the changes in the unrealized credit-related other-than-temporary impairment component of the amortized cost related to available-for-sale securities: (a) that we have written down for other-than-temporary impairment; and (b) for which the credit component of the loss has been recognized in earnings. The credit-related other-than-temporary impairment component of the amortized cost represents the difference between the present value of expected future cash flows at the time of impairment, including the estimated proceeds from bond insurance, and the amortized cost basis of the security prior to considering credit losses. The beginning balances represent the other-than-temporary impairment credit loss components related to available-for-sale securities for which other-than-temporary impairment occurred prior to January 1, 2013 and January 1, 2012, respectively, but will not be realized until the securities are sold, written off, or mature. Net impairment of available-for-sale securities recognized in earnings is presented as additions in two components based upon whether the current period is: (a) the first time the debt security was credit-impaired; or (b) not the first time the debt security was credit-impaired. The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired available-for-sale securities. Additionally, the credit loss component is reduced by the amortization resulting from significant increases in cash flows expected to be collected that are recognized over the remaining life of the security.

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Table 7.5 — Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities

	Year Ended December 31,	
	2013	2012
	(in millions)	
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:		
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	$16,745	$15,988
Additions:		
Amounts related to credit losses for which an other-than-temporary impairment was not previously recognized	46	141
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized	896	2,027
Reductions:		
Amounts related to securities which were sold, written off, or matured	(1,193)	(1,289)
Amounts for which we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis	(1,536)	(15)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security	(495)	(107)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings[1]	$14,463	$16,745

(1) Excludes other-than-temporary impairments on securities that we intend to sell or it is more likely than not that we will be required to sell before recovery of the unrealized losses.

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

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

Table 7.6 — Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Gross realized gains			
Mortgage-related securities:			
Freddie Mac	$547	$34	$77
Fannie Mae	17	14	14
CMBS	1,301	82	37
Option ARM	1	3	—
Alt-A and other	70	—	—
Obligations of states and political subdivisions	13	19	11
Subprime	1	—	—
Total mortgage-related securities gross realized gains	1,950	152	139
Gross realized gains	1,950	152	139
Gross realized losses			
Mortgage related securities:[1]			
Freddie Mac	(25)	—	—

CMBS	—	—	(81)
Option ARM	(4)	—	—
Alt-A and other	(19)	—	—
Subprime	(3)	—	—
Total mortgage-related securities gross realized losses	(51)	—	(81)
Gross realized losses	(51)	—	(81)
Net realized gains (losses)	$1,899	$152	$58

(1) The individual sales do not change our conclusion, at period end, that we do not intend to sell our remaining mortgage-related available-for-sale securities that are in an unrealized loss position and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses.

Maturities of Available-For-Sale Securities

The table below summarizes the remaining contractual maturities of available-for-sale securities.

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Table 7.7 — Maturities of Available-For-Sale Securities[1]

	As of December 31, 2013									
	Total	Total	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in millions)									
Available-for-sale securities:										
Freddie Mac	$39,001	$40,659	$4	$4	$570	$599	$613	$654	$37,814	$39,402
Fannie Mae	10,140	10,797	3	3	275	291	163	177	9,699	10,326
Ginnie Mae	149	167	—	—	7	8	12	14	130	145
CMBS	29,151	30,338	—	—	677	735	—	—	28,474	29,603
Subprime	29,897	27,499	—	—	—	—	—	—	29,897	27,499
Option ARM	6,617	6,574	—	—	—	—	—	—	6,617	6,574
Alt-A and other	8,322	8,706	1	2	71	70	12	12	8,238	8,622
Obligations of states and political subdivisions	3,533	3,495	5	5	39	42	106	107	3,383	3,341
Manufactured housing	629	684	—	—	—	—	—	—	629	684
Total available-for-sale securities	$127,439	$128,919	$13	$14	$1,639	$1,745	$906	$964	$124,881	$126,196
Weighted Average Yield[2]	2.99 %		5.62 %		5.19 %		5.16 %		2.95 %	

(1) Maturity information provided is based on contractual maturities, which may not represent the expected life as obligations underlying these securities may be prepaid at any time without penalty.

(2) The weighted average yield is calculated based on a yield for each individual lot held at December 31, 2013 excluding any fully taxable-equivalent adjustments related to tax exempt sources of interest income. The numerator for the individual lot yield consists of the sum of: (a) the year-end interest coupon rate multiplied by the year-end UPB; and (b) the annualized amortization income or expense calculated for December 2013 (excluding the accretion of non-credit-related other-than-temporary impairments and any adjustments recorded for changes in the effective rate). The denominator for the individual lot yield consists of the year-end amortized cost of the lot excluding effects of other-than-temporary impairments on the UPB of impaired lots.

Trading Securities

The table below summarizes the estimated fair values by major security type for trading securities. Our trading securities mainly consist of Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating rate, interest-only and principal-only securities.

Table 7.8 — Trading Securities

	December 31, 2013	December 31, 2012

	(in millions)	
Mortgage-related securities:		
Freddie Mac	$9,349	$10,354
Fannie Mae	7,180	10,338
Ginnie Mae	98	131
Other	141	156
Total mortgage-related securities	16,768	20,979
Non-mortgage-related securities:		
Asset-backed securities	—	292
Treasury bills	2,254	1,160
Treasury notes	4,382	19,061
Total non-mortgage-related securities	6,636	20,513
Total fair value of trading securities	$23,404	$41,492

With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium (i.e., net fair value was higher than UPB) as of December 31, 2013.

For the years ended December 31, 2013, 2012, and 2011, we recorded net unrealized losses on trading securities held at those dates of $(1.6) billion, $(1.7) billion and $(1.0) billion, respectively.

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NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our “indebtedness” is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, “indebtedness” does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” for information regarding restrictions on the amount of mortgage-related securities that we may own.

Our debt cap under the Purchase Agreement was $780.0 billion in 2013 and declined to $663.0 billion on January 1, 2014. As of December 31, 2013, we estimate that our aggregate indebtedness was $511.3 billion, or $268.7 billion below the applicable debt cap. Our aggregate indebtedness is calculated as the par value of other debt.

In the tables below, the categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt.

During 2013, 2012, and 2011, we recognized fair value gains (losses) of $(11) million, $16 million, and $91 million, respectively, on our foreign-currency denominated debt, of which $(31) million, $(7) million, and $40 million, respectively, were gains (losses) related to foreign-currency translation.

Other Short-Term Debt

As indicated in "Table 8.1 — Other Short-Term Debt", a majority of other short-term debt consisted of Reference Bills® securities and discount notes, paying only principal at maturity. Reference Bills® securities, discount notes, and medium-term notes are unsecured general corporate obligations. Certain medium-term notes that have original maturities of one year or less are classified as other short-term debt for purposes of this presentation.

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

Table 8.1 — Other Short-Term Debt

	December 31, 2013				December 31, 2012			
	Par Value	Balance, Net(1)	Weighted Average Effective Rate(2)		Par Value	Balance, Net(1)	Weighted Average Effective Rate(2)	
	(dollars in millions)							
Other short-term debt:								
Reference Bills® securities and discount notes	$137,767	$137,712	0.13	%	$117,930	$117,889	0.15	%
Medium-term notes	4,000	4,000	0.16		—	—	—	
Total other short-term debt	$141,767	$141,712	0.13		$117,930	$117,889	0.15	

(1) Represents par value, net of associated discounts or premiums.

(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, and issuance costs.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are effectively collateralized borrowing transactions where we sell securities with an agreement to repurchase such securities. These agreements require the underlying securities to be delivered to the dealers who are the counterparties to the transactions. Federal funds purchased are unsecuritized borrowings from commercial banks that are members of the Federal Reserve System. We had no balances in federal funds purchased and securities sold under agreements to repurchase at either December 31, 2013 or 2012.

Other Long-Term Debt

The table below summarizes our other long-term debt.

Table 8.2 — Other Long-Term Debt

		December 31, 2013			December 31, 2012		
	Contractual Maturity[1]	Par Value	Balance, Net[2]	Weighted Average Effective Rate[3]	Par Value	Balance, Net[2]	Weighted Average Effective Rate[3]
	(dollars in millions)						
Other long-term debt:							
Other senior debt:[4]							
Fixed-rate:							
Medium-term notes — callable[5]	2014 - 2037	$101,190	$101,236	1.51 %	$94,655	$94,842	1.62 %
Medium-term notes — non-callable	2014 - 2028	37,878	38,107	0.99	42,623	42,877	1.08
U.S. dollar Reference Notes securities — non-callable	2014 - 2032	190,371	190,406	2.71	225,857	225,885	2.82
€Reference Notes securities — non-callable	2014	528	529	4.38	1,167	1,187	4.58
Variable-rate:							
Medium-term notes — callable	2014 - 2028	6,001	6,001	1.66	6,953	6,953	2.57
Medium-term notes — non-callable	2014 - 2026	18,533	18,533	0.22	46,194	46,197	0.27
STACR	2023	1,107	1,155	4.29	—	—	—
Zero-coupon:							
Medium-term notes — callable	2037 - 2040	1,200	311	5.82	1,300	324	5.71
Medium-term notes — non-callable	2014 - 2039	12,217	8,334	3.08	15,240	10,923	4.03
Hedging-related basis adjustments		N/A	41		N/A	57	
Total other senior debt		369,025	364,653		433,989	429,245	
Other subordinated debt:							
Fixed-rate	2016 - 2018	221	218	6.60	221	218	6.59
Zero-coupon	2019	332	184	10.51	332	166	10.51
Total other subordinated debt		553	402		553	384	
Total other long-term debt		$369,578	$365,055	2.08 %	$434,542	$429,629	2.15 %

(1) Represents contractual maturities at December 31, 2013.

(2) Represents par value of long-term debt securities and subordinated borrowings, net of associated discounts or premiums and hedge-related basis adjustments, with $2.6 billion and $2.2 billion, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected at December 31, 2013 and 2012.

(3)

Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, issuance costs, and hedging-related basis adjustments.

(4) For debt denominated in a currency other than the U.S. dollar, the outstanding balance is based on the exchange rate at December 31, 2013 and 2012, respectively.

(5) Includes callable FreddieNotes® securities of $0.8 billion and $1.2 billion at December 31, 2013 and 2012, respectively.

A portion of our other long-term debt is callable. Callable debt gives us the option to redeem the debt security at par on one or more specified call dates or at any time on or after a specified call date.

Debt Securities of Consolidated Trusts Held by Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts (i.e., single-family PC trusts and certain single-family and multifamily Other Guarantee Transactions).

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

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Table 8.3 — Debt Securities of Consolidated Trusts Held by Third Parties

	December 31, 2013				December 31, 2012			
	Contractual Maturity(1)	UPB	Balance, Net(2)	Weighted Average Coupon(1)	Contractual Maturity(1)	UPB	Balance, Net(2)	Weighted Average Coupon(1)
	(dollars in millions)				(dollars in millions)			
Single-family:(3)								
30-year or more, fixed-rate	2014 - 2052	$969,270	$993,683	4.14 %	2013 - 2048	$960,176	$982,718	4.53 %
20-year fixed-rate	2014 - 2034	75,910	78,252	3.81	2013 - 2033	73,902	76,079	4.09
15-year fixed-rate	2014 - 2029	270,513	277,018	3.23	2013 - 2028	257,083	263,244	3.59
Adjustable-rate	2014 - 2047	60,683	61,830	2.64	2013 - 2047	62,424	63,649	2.88
Interest-only(4)	2026 - 2041	21,352	21,390	3.70	2026 - 2041	31,588	31,642	4.37
FHA/VA	2014 - 2041	1,284	1,303	5.67	2013 - 2041	1,638	1,663	5.67
Total single-family		1,399,012	1,433,476			1,386,811	1,418,995	
Multifamily(5)	2018 - 2019	444	508	4.96	2018 - 2019	448	529	4.96
Total debt securities of consolidated trusts held by third parties(6)		$1,399,456	$1,433,984			$1,387,259	$1,419,524	

(1) Based on the contractual maturity and interest rate of debt securities of our consolidated trusts held by third parties.
(2) Represents par value, net of associated discounts, premiums, and other basis adjustments.
(3) Debt securities of consolidated trusts held by third parties are prepayable as the loans that collateralize the debt may prepay without penalty at any time.
(4) Includes interest-only securities and interest-only mortgage loans that allow the borrowers to pay only interest for a fixed period of time before the loans begin to amortize.
(5) Balance, Net includes interest-only securities recorded at fair value.
(6) The effective rate for debt securities of consolidated trusts held by third parties was 3.39% and 3.49% as of December 31, 2013 and 2012, respectively.

The table below summarizes the contractual maturities of other long-term debt securities and debt securities of consolidated trusts held by third parties at December 31, 2013.

Table 8.4 — Contractual Maturity of Other Long-Term Debt and Debt Securities of Consolidated Trusts Held by Third Parties

Annual Maturities	Par Value(1)(2)
	(in millions)
Other long-term debt:	
2014	$78,115
2015	70,303
2016	63,564
2017	51,908

2018	33,418
Thereafter	72,270
Debt securities of consolidated trusts held by third parties[3]	1,399,456
Total	1,769,034
Net discounts, premiums, hedge-related and other basis adjustments[4]	30,005
Total debt securities of consolidated trusts held by third parties and other long-term debt	$1,799,039

(1) Represents par value of long-term debt securities and subordinated borrowings and UPB of debt securities of our consolidated trusts held by third parties.

(2) For other debt denominated in a currency other than the U.S. dollar, the par value is based on the exchange rate at December 31, 2013.

(3) Contractual maturities of debt securities of consolidated trusts held by third parties may not represent expected maturity as they are prepayable at any time without penalty.

(4) Other basis adjustments primarily represent changes in fair value attributable to instrument-specific credit risk and interest-rate risk related to other foreign-currency denominated debt.

Line of Credit

At both December 31, 2013 and 2012, we had one secured, uncommitted intraday line of credit with a third party totaling $10 billion. We use this line of credit regularly to provide us with additional liquidity to fund our intraday payment activities through the Fedwire system in connection with the Federal Reserve’s payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs. No amounts were drawn on this line of credit at December 31, 2013 and 2012. We expect to continue to use the current facility to satisfy our intraday financing needs; however, as the line is uncommitted, we may not be able to draw on it if and when needed.

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Subordinated Debt Interest and Principal Payments

The terms of certain of our subordinated debt securities provide for us to defer payments of interest in the event we fail to maintain specified capital levels. However, in a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels.

NOTE 9: DERIVATIVES

Use of Derivatives

We use derivatives primarily to manage the interest rate and prepayment risk associated with our investments in mortgage-related assets, net of related 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 and models. We use derivatives to hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, if rates increase and the duration of our assets extends more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into pay-fixed interest-rate swaps or selling Treasury-derivatives. If rates decrease and the duration of our assets shortens more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into receive-fixed interest-rate swaps or purchasing Treasury-derivatives. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

We classify derivatives into three categories: (a) exchange-traded derivatives; (b) cleared derivatives; and (c) OTC derivatives. 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- and Euribor-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions); and
- LIBOR- and Treasury-based exchange-traded futures.

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

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed interest rate swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We may, from time to time, write other derivative contracts such as interest-rate futures.

Commitments

We routinely enter into commitments that include our: (a) commitments to purchase and sell investments in securities; (b) commitments to purchase mortgage loans; and (c) commitments to purchase and extinguish or issue debt securities of our consolidated trusts. Most of these commitments are considered derivatives and therefore are subject to the accounting guidance for derivatives and hedging.

Swap Guarantee Derivatives

In connection with some of the guarantee arrangements pertaining to multifamily housing revenue bonds and multifamily pass-through certificates, we may also guarantee the sponsor's or the borrower's obligations as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk, which are accounted for as swap guarantee derivatives.

Credit Derivatives

We entered into credit-risk sharing agreements for certain credit enhanced multifamily housing revenue bonds held by third parties in exchange for a monthly fee. In addition, we have purchased mortgage loans containing debt cancellation contracts, which provide for mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract we would

be obligated under our guarantee to make the required contractual payments.
For a discussion of our significant accounting policies related to derivatives, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Derivatives."
Derivative Assets and Liabilities at Fair Value
The table below presents the location and fair value of derivatives reported on our consolidated balance sheets.

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Table 9.1 — Derivative Assets and Liabilities at Fair Value

	December 31, 2013			December 31, 2012		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
		Assets	Liabilities		Assets	Liabilities
	(in millions)					
Total derivative portfolio						
Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging						
Interest-rate swaps:						
Receive-fixed	$281,727	$4,475	$(2,438)	$275,099	$13,782	$(97)
Pay-fixed	242,597	5,540	(10,879)	270,092	177	(30,147)
Basis (floating to floating)	300	4	—	2,300	6	—
Total interest-rate swaps	524,624	10,019	(13,317)	547,491	13,965	(30,244)
Option-based:						
Call swaptions						
Purchased	59,290	2,373	—	37,650	7,360	—
Written	5,945	—	(201)	6,195	—	(749)
Put Swaptions						
Purchased	33,410	698	—	43,200	288	—
Other option-based derivatives(1)	23,365	1,041	(3)	31,540	2,449	(1)
Total option-based	122,010	4,112	(204)	118,585	10,097	(750)
Futures	50,270	—	—	41,123	37	(2)
Foreign-currency swaps	528	39	—	1,167	73	(6)
Commitments	18,731	61	(69)	25,530	20	(47)
Credit derivatives	5,386	—	(6)	8,307	1	(5)
Swap guarantee derivatives	3,477	—	(31)	3,628	—	(35)
Total derivatives not designated as hedging instruments	725,026	14,231	(13,627)	745,831	24,193	(31,089)
Derivative interest receivable (payable)		1,243	(1,835)		1,409	(2,239)
Netting adjustments(2)		(14,411)	15,282		(24,945)	33,150
Total derivative portfolio, net	$725,026	$1,063	$(180)	$745,831	$657	$(178)

(1) Primarily includes purchased interest-rate caps and floors.

(2) Represents counterparty netting and cash collateral netting. Net cash collateral posted was $871 million and $8.2 billion at December 31, 2013 and 2012, respectively.

The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable and net trade/settle receivable or payable, and is net of cash collateral held or posted, where allowable. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net.

Non-cash collateral held is not recognized on our consolidated balance sheets as we do not obtain effective control over the collateral, and non-cash collateral posted is not de-recognized from our consolidated balance sheets as we do not relinquish effective control over the collateral. Therefore, non-cash collateral held or posted is not presented as an offset against derivative assets or derivative liabilities on our consolidated balance sheets.

See “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES” for information related to our derivative counterparties and collateral held and posted.

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives reported in our consolidated statements of comprehensive income.

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Table 9.2 — Gains and Losses on Derivatives

Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging	Derivative Gains (Losses)[1] Year Ended December 31, 2013	2012	2011
	(in millions)		
Interest-rate swaps:			
Receive-fixed			
Foreign-currency denominated	$(21)	$(33)	$(49)
U.S. dollar denominated	(10,400)	2,686	12,686
Total receive-fixed swaps	(10,421)	2,653	12,637
Pay-fixed	19,021	(2,865)	(22,999)
Basis (floating to floating)	(2)	8	(5)
Total interest-rate swaps	8,598	(204)	(10,367)
Option based:			
Call swaptions			
Purchased	(2,547)	1,365	10,234
Written	546	(38)	(2,337)
Put swaptions			
Purchased	(8)	(273)	(1,614)
Written	—	6	14
Other option-based derivatives[2]	(413)	190	879
Total option-based	(2,422)	1,250	7,176
Futures	21	12	(150)
Foreign-currency swaps	30	(8)	(41)
Commitments	(131)	298	(1,340)
Credit derivatives	(3)	—	—
Swap guarantee derivatives	9	7	3
Other[3]	(3)	(1)	(1)
Subtotal	6,099	1,354	(4,720)
Accrual of periodic settlements:[4]			
Receive-fixed interest-rate swaps	3,764	3,511	4,173
Pay-fixed interest-rate swaps	(7,233)	(7,318)	(9,241)
Foreign-currency swaps	—	4	22
Other	2	1	14
Total accrual of periodic settlements	(3,467)	(3,802)	(5,032)
Total	$2,632	$(2,448)	$(9,752)

(1) Gains (losses) are reported as derivative gains (losses) on our consolidated statements of comprehensive income.
(2) Primarily includes purchased interest-rate caps and floors.
(3) Includes fees and commissions paid on cleared and exchange-traded derivatives and, in 2011, a $3 million benefit related to the bankruptcy of Lehman Brothers Holdings Inc.
(4) For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of comprehensive income.

Hedge Designation of Derivatives

At December 31, 2013 and 2012, we did not have any derivatives in hedge accounting relationships; however, there are deferred net losses recorded in AOCI related to closed cash flow hedges. Net deferred gains and losses on closed cash flow hedges (i.e., where the derivative is either terminated or redesignated) are included in AOCI until the related forecasted transaction affects earnings or is determined to be probable of not occurring. Amounts reported in AOCI linked to interest payments on long-term debt are recorded in other debt interest expense and amounts not linked to interest payments on long-term debt are recorded in expense related to derivatives. In the years ended December 31, 2013 and 2012, we reclassified from AOCI into earnings (effective portion) a loss of $460 million and $612 million, respectively, related to closed cash flow hedges. See “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT) — Accumulated Other Comprehensive Income — Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges” for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

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NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES

Derivative Portfolio

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and variation margin in connection with cleared and exchange-traded derivatives, such as cleared interest-rate swaps and futures contracts, exposes us to institutional credit risk in the event that our clearing members or the financial clearinghouses fail to meet their obligations. The use of cleared and exchange-traded derivatives decreases our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. OTC derivatives expose us to institutional credit risk to individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its obligations.

Our use of interest rate swaps, option-based derivatives, and foreign-currency swaps 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.

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap, option-based, and foreign-currency swap derivatives. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty's derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted.

Our collateral agreements require most counterparties to post collateral to us for the amount of our net exposure to them above the counterparty's collateral posting threshold. Collateral posting thresholds are tied to a counterparty's credit rating. Bilateral collateral agreements are in place for all of our active OTC derivative counterparties. For OTC derivatives, we are subject to collateral posting thresholds based on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The amount of initial margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. Collateral is typically transferred within one business day based on the values of the related derivatives. This time lag in posting collateral can affect our net uncollateralized exposure to derivative counterparties.

Collateral posted by a derivative counterparty is typically in the form of cash, although U.S. Treasury securities and Freddie Mac mortgage-related securities may also be posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to direct the custodian bank to transfer the collateral to us or to sell the collateral and transfer the proceeds to us. At December 31, 2013 and 2012, all amounts of cash collateral related to derivatives were offset against derivative assets, net or derivative liabilities, net, as applicable.

Our net uncollateralized exposure to derivative counterparties for OTC interest-rate swap, option-based, and foreign-currency swap derivatives was $188 million and $69 million at December 31, 2013 and 2012, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on December 31, 2013, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $188 million. Four counterparties each accounted for greater than 10% and collectively accounted for 56% of our net uncollateralized exposure to derivative counterparties, excluding cleared and exchange-traded derivatives, commitments, swap guarantee derivatives, certain written options, and certain credit derivatives at December 31, 2013. These counterparties were Royal Bank of Canada, Credit Suisse International, Deutsche Bank, A.G. and Goldman Sachs Capital Markets, L.P., all of which were rated "A" or above using the lower of S&P's or Moody's rating stated in terms of the S&P equivalent as of December 31, 2013.

Beginning with contracts executed or modified on or after June 10, 2013, the types of interest-rate swaps that we use most frequently became subject to the central clearing requirement. Our exposure to cleared and exchange-traded derivatives was $382 million and $66 million as of December 31, 2013 and 2012, respectively. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. We are required to post margin in connection with our cleared and exchange-traded derivatives. At December 31, 2013, the majority of our exposure for our cleared and exchange-traded derivatives resulted from our posting of initial margin. For information about margin we have posted in connection with cleared and exchange-traded derivatives, see "— Collateral Pledged."

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The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was $61 million and $20 million at December 31, 2013 and 2012, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation ("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization.

The table below displays information related to derivatives and securities purchased under agreements to resell on our consolidated balance sheets.

Table 10.1 — Offsetting of Financial Assets and Liabilities

	December 31, 2013				
	Gross Amount Recognized(1)	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets(2)	Gross Amount Not Offset in the Consolidated Balance Sheets	Net Amount
	(in millions)				
Assets:					
Derivatives:					
Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives	$13,886	$ (13,266)	$ 620	$ (432)	$188
Cleared and exchange-traded derivatives	1,527	(1,145)	382	—	382
Other(3)	61	—	61	—	61
Total derivatives	15,474	(14,411)	1,063	(432)	631
Securities purchased under agreements to resell	62,383	—	62,383	(62,383)	—
Total	$77,857	$ (14,411)	$ 63,446	$ (62,815)	$631
Liabilities:					
Derivatives:					
Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives	$(14,616)	$ 14,545	$ (71)	$ —	$(71)
Cleared and exchange-traded derivatives	(737)	737	—	—	—
Other(3)	(109)	—	(109)	—	(109)
Total	$(15,462)	$ 15,282	$ (180)	$ —	$(180)

	December 31, 2012				
	Gross Amount Recognized(1)	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets(2)	Gross Amount Not Offset in the Consolidated Balance Sheets	Net Amount
	(in millions)				
Assets:					
Derivatives:					
	$25,515	$ (24,945)	$ 570	$ (501)	$69

Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives					
Cleared and exchange-traded derivatives	66	—	66	—	66
Other(3)	21	—	21	—	21
Total derivatives	25,602	(24,945)	657	(501)	156
Securities purchased under agreements to resell	37,563	—	37,563	(37,563)	—
Total	$63,165	$ (24,945)	$ 38,220	$ (38,064)	$156
Liabilities:					
Derivatives:					
Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives	$(33,233)	$ 33,150	$ (83)	$ —	$(83)
Cleared and exchange-traded derivatives	(8)	—	(8)	—	(8)
Other(3)	(87)	—	(87)	—	(87)
Total	$(33,328)	$ 33,150	$ (178)	$ —	$(178)

(1) For derivatives, includes interest receivable or payable and trade/settle receivable or payable.
(2) For derivatives, includes cash collateral posted or held in excess of exposure.
(3) Includes commitments, swap guarantee derivatives, certain written options and credit derivatives.

Collateral Pledged

Collateral Pledged to Freddie Mac

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Our counterparties are required to pledge collateral for transactions involving securities purchased under agreements to resell. Also, most derivative instruments are subject to collateral posting thresholds as prescribed by the collateral agreements with our counterparties. Under the derivative collateral agreements, U.S. Treasury securities, Freddie Mac mortgage-related securities, and cash may be pledged. 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 and derivative counterparty collateral posting thresholds in an effort to manage our exposure to losses. We had cash and cash equivalents pledged to us related to OTC derivative instruments of $1.9 billion and $1.5 billion at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, we had $432 million and $501 million, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had $646 million of cash pledged to us related to cleared derivatives at December 31, 2013. Also, at December 31, 2013 and 2012, we had $5.0 billion and $1.5 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase mortgages sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

In addition, we hold cash and cash equivalents as collateral in connection with certain of our multifamily guarantees and mortgage loans as credit enhancements. The cash and cash equivalents held as collateral related to these transactions at December 31, 2013 and 2012 was $66 million and $158 million, respectively.

We consider federal funds sold to be overnight unsecured trades executed with insured depository institutions that are members of the Federal Reserve System. Federal funds sold trades are uninsured. We did not hold any federal funds sold at December 31, 2013 and 2012.

Collateral Pledged by Freddie Mac

We are required to pledge collateral for margin requirements with third-party custodians in connection with secured financings and derivative transactions with some counterparties. The amount of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating. As of December 31, 2013, we had one secured, uncommitted intraday line of credit with a third party in connection with the Federal Reserve's payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs, in connection with our use of the Fedwire system. In certain circumstances, the line of credit agreement gives the secured party the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank of New York. We pledge collateral to meet our collateral requirements under the line of credit agreement upon demand by the counterparty.

The table below summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged.

Table 10.2 — Collateral in the Form of Securities Pledged

	December 31, 2013	December 31, 2012
	(in millions)	
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[(1)]	$10,654	$10,390
Available-for-sale securities	70	132
Trading securities	365	—
Securities pledged without the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[(1)]	—	148
Total securities pledged	$11,089	$10,670

(1)

Represents PCs held by us in our Investments segment mortgage investments portfolio and pledged as collateral which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

Securities Pledged with the Ability of the Secured Party to Repledge

At December 31, 2013, we pledged securities with the ability of the secured party to repledge of $11.1 billion, of which $10.5 billion was collateral posted in connection with our secured uncommitted intraday line of credit with a third party as discussed above. Of the remainder at December 31, 2013, we pledged $0.6 billion in connection with derivatives and securities transactions.

At December 31, 2012, we pledged securities with the ability of the secured party to repledge of $10.5 billion, of which $10.5 billion was collateral posted in connection with our secured uncommitted intraday line of credit with a third party as discussed above. Of the remainder at December 31, 2012, we pledged $65 million in connection with derivative transactions.

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Securities Pledged without the Ability of the Secured Party to Repledge

At December 31, 2013 and 2012, we pledged securities, without the ability of the secured party to repledge, of $0 million and $148 million, respectively, at a clearinghouse in connection with our securities transactions.

Cash Pledged

At December 31, 2013, we pledged $3.4 billion of collateral in the form of cash and cash equivalents, of which $3.2 billion related to our OTC derivative agreements as we had $3.2 billion of such derivatives in a net loss position. At December 31, 2012, we pledged $9.8 billion of collateral in the form of cash and cash equivalents, of which $9.7 billion related to our OTC derivative agreements as we had $9.7 billion of such derivatives in a net loss position. The remaining $275 million and $110 million was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at December 31, 2013 and 2012, respectively. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2013, was $3.2 billion for which we posted collateral of $3.2 billion in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2013, we would have been required to post an additional $42 million of collateral to our counterparties.

NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT)

Accumulated Other Comprehensive Income

The table below presents changes in AOCI after the effects of our 35% federal statutory tax rate related to available-for-sale securities, closed cash flow hedges, and our defined benefit plans.

Table 11.1 — Changes in AOCI by Component, Net of Tax

	Year Ended December 31, 2013			
	AOCI Related to Available-For-Sale Securities[1]	AOCI Related to Cash Flow Hedge Relationships[2]	AOCI Related to Defined Benefit Plans	Total
	(in millions)			
Beginning balance	$(1,444)	$(1,316)	$(178)	$(2,938)
Other comprehensive income before reclassifications[3]	2,659	—	169	2,828
Amounts reclassified from accumulated other comprehensive income	(253)	316	41	104
Changes in AOCI by component	2,406	316	210	2,932
Ending balance	$962	$(1,000)	$32	$(6)

	Year Ended December 31, 2012			
	AOCI Related to Available-For-Sale Securities[1]	AOCI Related to Cash Flow Hedge Relationships[2]	AOCI Related to Defined Benefit Plans	Total
	(in millions)			
Beginning balance	$(6,213)	$(1,730)	$(52)	$(7,995)
Other comprehensive income before reclassifications[3]	3,458	—	(131)	3,327
Amounts reclassified from accumulated other comprehensive income[4]	1,311	414	5	1,730
Changes in AOCI by component	4,769	414	(126)	5,057
Ending balance	$(1,444)	$(1,316)	$(178)	$(2,938)

(1) The amounts reclassified from AOCI represent the gain or loss recognized in earnings due to a sale of an available-for-sale security or the recognition of a net impairment recognized in earnings. See "NOTE 7: INVESTMENTS IN SECURITIES" for more information.

(2) The amounts reclassified from AOCI represent the AOCI amount that was recognized in earnings as the originally hedged forecasted transactions affected earnings, unless it was deemed probable that the forecasted transaction would not occur. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the hedge related to the forecasted transaction would be reclassified into earnings immediately. See "NOTE 9: DERIVATIVES" for more information about our derivatives.

(3) For the years ended December 31, 2013 and 2012, net of tax expense of $1.4 billion and $1.9 billion, respectively, for AOCI related to available-for-sale securities.

(4) For the year ended December 31, 2012, net of tax benefit of $706 million for AOCI related to available-for-sale securities and net of tax benefit of $198 million for AOCI related to cash flow hedge relationships.

Reclassifications from AOCI to Net Income

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

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Table 11.2 — Reclassifications from AOCI to Net Income

Details about Accumulated Other Comprehensive Income Components	Three Months Ended December 31, 2013	Year Ended December 31, 2013	Affected Line Item in the Consolidated Statements of Comprehensive Income
	(in millions)		
AOCI related to available-for-sale securities			
	$717	$1,899	Other gains (losses) on investment securities recognized in earnings
	(1,297)	(1,510)	Net impairment of available-for-sale securities recognized in earnings
	(580)	389	Total before tax
	203	(136)	Tax (expense) or benefit
	(377)	253	Net of tax
AOCI related to cash flow hedge relationships			
	(1)	(5)	Interest expense — Other debt
	(94)	(455)	Expense related to derivatives
	(95)	(460)	Total before tax
	29	144	Tax (expense) or benefit
	(66)	(316)	Net of tax
AOCI related to defined benefit plans			
	8	2	Salaries and employee benefits
	(43)	(43)	Tax (expense) or benefit
	(35)	(41)	Net of tax
Total reclassifications in the period	$(478)	$(104)	Net of tax

Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges

As shown in "Table 11.1 — Changes in AOCI by Component, Net of Tax," the total AOCI related to derivatives designated as cash flow hedges was a loss of $1.0 billion and $1.3 billion at December 31, 2013 and 2012, 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. Over the next 12 months, we estimate that approximately $214 million, net of taxes, of the $1.0 billion of cash flow hedge losses in AOCI at December 31, 2013 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 20 years. However, 74% and 89% of AOCI relating to closed cash flow hedges at December 31, 2013 will be reclassified to earnings over the next five and ten years, respectively.

Issuance of Senior Preferred Stock

Pursuant to the Purchase Agreement described in "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS," we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide funds to us under the Purchase Agreement.

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances. As discussed in "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Purchase Agreement," the quarterly commitment fee has been suspended.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. Total dividends paid in cash during 2013, 2012, and 2011 at the direction of the Conservator were $47.6 billion, $7.2 billion, and $6.5 billion, respectively. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for a discussion of our net worth sweep dividend.

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The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (a) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (b) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of: (a) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (b) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

The table below provides a summary of our senior preferred stock outstanding at December 31, 2013.

Table 11.3 — Senior Preferred Stock

		Draw Date	Shares Authorized	Shares Outstanding	Total Par Value	Initial Liquidation Preference Price per Share	Total Liquidation Preference[(1)]
Senior preferred stock:			(in millions, except initial liquidation preference price per share)				
10	%	September 8, 2008[(2)]	1.00	1.00	$1.00	$ 1,000	$1,000
10	%[(3)]	November 24, 2008	—	—	—	N/A	13,800
10	%[(3)]	March 31, 2009	—	—	—	N/A	30,800
10	%[(3)]	June 30, 2009	—	—	—	N/A	6,100
10	%[(3)]	June 30, 2010	—	—	—	N/A	10,600
10	%[(3)]	September 30, 2010	—	—	—	N/A	1,800
10	%[(3)]	December 30, 2010	—	—	—	N/A	100
10	%[(3)]	March 31, 2011	—	—	—	N/A	500
10	%[(3)]	September 30, 2011	—	—	—	N/A	1,479
10	%[(3)]	December 30, 2011	—	—	—	N/A	5,992
10	%[(3)]	March 30, 2012	—	—	—	N/A	146

10 %(3)	June 29, 2012	—	—	—	N/A	19
Total, senior preferred stock		1.00	1.00	$1.00		$72,336

(1) Amounts stated at redemption value.
(2) We did not receive any cash proceeds from Treasury as a result of issuing these shares.
(3) Represents an increase in the liquidation preference of our senior preferred stock due to the receipt of funds from Treasury.

No cash was received from Treasury under the Purchase Agreement in 2013, because we had positive net worth at December 31, 2012, March 31, 2013, June 30, 2013, and September 30, 2013 and, consequently, FHFA did not request a draw on our behalf. At December 31, 2013, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Our quarterly senior preferred stock dividend is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds the applicable Capital Reserve Amount, which was established at $3 billion for 2013 and declines to zero in 2018. Based on our Net Worth Amount at December 31, 2013, our dividend obligation to Treasury in March 2014 will be $10.4 billion. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Government Support for our Business” for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was $72.3 billion and $72.3 billion as of December 31, 2013 and 2012, respectively. See “NOTE 18: REGULATORY CAPITAL” for additional information.

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Common Stock Warrant

Pursuant to the Purchase Agreement described in "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS," on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury's commitment to provide funds to us under the terms set forth in the Purchase Agreement.

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

We account for the warrant in permanent equity. At issuance on September 7, 2008, we recognized the warrant at fair value, and we do not recognize subsequent changes in fair value while the warrant remains classified in equity. We recorded an aggregate fair value of $2.3 billion for the warrant as a component of additional paid-in-capital. We derived the fair value of the warrant using a modified Black-Scholes model. If the warrant is exercised, the stated value of the common stock issued will be reclassified to common stock in our consolidated balance sheets. The warrant was determined to be in-substance non-voting common stock, because the warrant's exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock). As a result, the warrant is included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the years ended December 31, 2013, 2012, and 2011, respectively, included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Preferred Stock

The table below provides a summary of our preferred stock outstanding at December 31, 2013. We have the option to redeem our preferred stock on specified dates, at their redemption price plus dividends accrued through the redemption date. However, without the consent of Treasury, we are restricted from making payments to purchase or redeem preferred stock as well as paying any preferred dividends, other than dividends on the senior preferred stock. In addition, all 24 classes of preferred stock are perpetual and non-cumulative, and carry no significant voting rights or rights to purchase additional Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to additional paid-in capital.

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Table 11.4 — Preferred Stock

	Issue Date	Shares Authorized	Shares Outstanding	Total Par Value	Redemption Price per Share	Total Outstanding Balance[1]	Redeemable On or After[2]	OTCQB Symbol[3]
Preferred stock:		(in millions, except redemption price per share)						
1996 Variable-rate[4]	April 26, 1996	5.00	5.00	$ 5.00	$ 50.00	$ 250	June 30, 2001	FMCCI
5.81%	October 27, 1997	3.00	3.00	3.00	50.00	150	October 27, 1998	(5)
5%	March 23, 1998	8.00	8.00	8.00	50.00	400	March 31, 2003	FMCKK
1998 Variable-rate[6]	September 23 and 29, 1998	4.40	4.40	4.40	50.00	220	September 30, 2003	FMCCG
5.10%	September 23, 1998	8.00	8.00	8.00	50.00	400	September 30, 2003	FMCCH
5.30%	October 28, 1998	4.00	4.00	4.00	50.00	200	October 30, 2000	(5)
5.10%	March 19, 1999	3.00	3.00	3.00	50.00	150	March 31, 2004	(5)
5.79%	July 21, 1999	5.00	5.00	5.00	50.00	250	June 30, 2009	FMCCK
1999 Variable-rate[7]	November 5, 1999	5.75	5.75	5.75	50.00	287	December 31, 2004	FMCCL
2001 Variable-rate[8]	January 26, 2001	6.50	6.50	6.50	50.00	325	March 31, 2003	FMCCM
2001 Variable-rate[9]	March 23, 2001	4.60	4.60	4.60	50.00	230	March 31, 2003	FMCCN
5.81%	March 23, 2001	3.45	3.45	3.45	50.00	173	March 31, 2011	FMCCO
6%	May 30, 2001	3.45	3.45	3.45	50.00	173	June 30, 2006	FMCCP
2001 Variable-rate[10]	May 30, 2001	4.02	4.02	4.02	50.00	201	June 30, 2003	FMCCJ
5.70%	October 30, 2001	6.00	6.00	6.00	50.00	300	December 31, 2006	FMCKP
5.81%	January 29, 2002	6.00	6.00	6.00	50.00	300	March 31, 2007	(5)
2006 Variable-rate[11]	July 17, 2006	15.00	15.00	15.00	50.00	750	June 30, 2011	FMCCS
6.42%	July 17, 2006	5.00	5.00	5.00	50.00	250	June 30, 2011	FMCCT
5.90%	October 16, 2006	20.00	20.00	20.00	25.00	500	September 30, 2011	FMCKO
5.57%	January 16, 2007	44.00	44.00	44.00	25.00	1,100	December 31, 2011	FMCKM
5.66%	April 16, 2007	20.00	20.00	20.00	25.00	500	March 31, 2012	FMCKN
6.02%	July 24, 2007	20.00	20.00	20.00	25.00	500	June 30, 2012	FMCKL
6.55%	September 28, 2007	20.00	20.00	20.00	25.00	500	September 30, 2017	FMCKI

2007								
Fixed-to-floating rate(12)	December 4, 2007	240.00	240.00	240.00	25.00	6,000	December 31, 2012	FMCKJ
Total, preferred stock		464.17	464.17	$464.17		$14,109		

(1) Amounts stated at redemption value.

(2) In accordance with the Purchase Agreement, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury, redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant).

(3) Preferred stock trades exclusively through the OTCQB Marketplace unless otherwise noted.

(4) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 9.00%.

(5) Issued through private placement.

(6) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 7.50%.

(7) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury rate, and is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.

(8) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.10%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.

(9) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.

(10) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.20%, and is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.

(11) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.

(12) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of: (a) the sum of three-month LIBOR plus 4.16% per annum; or (b) 7.875% per annum. Optional redemption on December 31, 2012, and on December 31 every five years thereafter.

Stock-Based Compensation

Following the implementation of the conservatorship in September 2008, we suspended the operation of our ESPP, and are no longer making grants under our 2004 Employee Plan or our Directors' Plan. We collectively refer to the 2004 Employee Plan and the 1995 Employee Plan as the Employee Plans. 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. We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2013 and 2012, except for issuances of treasury stock as reported on our consolidated statements of equity (deficit) relating to stock-based

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compensation granted prior to conservatorship. Common stock delivered under these stock-based compensation plans consists of treasury stock or shares acquired in market transactions on behalf of the participants. During 2013, restrictions lapsed on 7,976 restricted stock units. At December 31, 2013, 20,341 restricted stock units remained outstanding. There are no remaining restrictions on outstanding restricted stock units. In addition, there were 41,160 shares of restricted stock outstanding at both December 31, 2013 and 2012. During 2013, no stock options were exercised and 492,861 stock options were forfeited or expired. At December 31, 2013, 816,435 stock options were outstanding.

For purposes of the earnings-per-share calculation, antidilutive potential common shares excluded from the computation of dilutive potential common shares were 998,707, 1,606,097, and 3,383,185 at December 31, 2013, 2012, and 2011, respectively.

Dividends Declared

No common dividends were declared in 2013. During the three months ended March 31, 2013, June 30, 2013, September 30, 2013, and December 31, 2013, we paid dividends of $5.8 billion, $7.0 billion, $4.4 billion, and $30.4 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during 2013.

Delisting of Common Stock and Preferred Stock from NYSE

On July 8, 2010, we delisted our common and 20 previously listed classes of preferred stock from the NYSE pursuant to a directive by our Conservator.

Our common stock and the classes of preferred stock that were previously listed on the NYSE are traded exclusively in the OTCQB Marketplace. Shares of our common stock now trade under the ticker symbol FMCC. We expect that our common stock and the previously listed classes of preferred stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the common and preferred stock.

NOTE 12: INCOME TAXES

Income Tax Benefit

The table below presents the components of our federal income tax benefit for 2013, 2012, and 2011. We are exempt from state and local income taxes.

Table 12.1 — Federal Income Tax Benefit

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Current income tax (expense) benefit	$(117)	$1,540	$283
Deferred income tax benefit (expense)	23,422	(3)	117
Total income tax benefit	$23,305	$1,537	$400

Our income tax benefit for 2013 primarily relates to the release of the valuation allowance against our net deferred tax assets.

The table below presents a reconciliation between our federal statutory income tax rate and our effective tax rate for 2013, 2012, and 2011.

Table 12.2 — Reconciliation of Statutory to Effective Tax Rate

	Year Ended December 31,					
	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in millions)					
Statutory corporate tax rate	$(8,877)	35.0%	$(3,306)	35.0%	$1,983	35.0%
Tax-exempt interest	101	(0.4)	133	(1.4)	179	3.2
Tax credits	495	(2.0)	536	(5.7)	566	10.0
Valuation allowance:						
Current year activity	5,156	(20.3)	2,637	(27.9)	(2,728)	(48.2)
Release of valuation allowance	26,369	(104.0)	—	—	—	—
Unrecognized tax benefits	—	—	1,205	(12.8)	(21)	(0.4)

Other	138	(0.5)	45	(0.5)	403	7.2
Total valuation allowance	31,663	(124.8)	3,887	(41.2)	(2,346)	(41.4)
Other	(77)	0.3	287	(3.0)	18	0.3
Effective tax rate	$23,305	(91.9)%	$1,537	(16.3)%	$400	7.1 %

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In 2013, our effective tax rate differs from the statutory rate of 35% primarily due to the release of the valuation allowance against our net deferred tax assets. In 2012 and 2011, our effective tax rate differs from the statutory tax rate of 35% primarily due to the valuation allowance on a portion of our net deferred tax assets and the recognition of uncertain tax positions.

Deferred Tax Assets and Liabilities

During 2013, we released our valuation allowance previously recorded on our net deferred tax asset. Deferred tax assets are created when: (a) expenses are recognized for financial reporting purposes prior to the corresponding recognition of expenses for tax reporting purposes; and/or (b) income is recognized for tax reporting purposes prior to the corresponding recognition of income for financial reporting purposes. The table below presents the balance of significant deferred tax assets, liabilities, and the valuation allowance at December 31, 2013 and 2012.

Table 12.3 — Deferred Tax Assets and Liabilities

	2013	2012
	(in millions)	
Deferred tax assets:		
Deferred fees	$5,035	$4,330
Basis differences related to derivative instruments	6,946	10,294
Credit related items and allowance for loan losses	3,648	6,785
Unrealized (gains) losses related to available-for-sale securities	—	778
LIHTC and AMT credit carryforward	3,997	3,408
Net operating loss carryforward	3,978	11,479
Other items, net	40	146
Total deferred tax assets	23,644	37,220
Deferred tax liabilities:		
Basis differences related to assets held for investment[1]	(375)	(4,609)
Unrealized (gains) losses related to available-for-sale securities	(518)	—
Basis differences related to debt	(35)	(149)
Total deferred tax liabilities	(928)	(4,758)
Valuation allowance	—	(31,684)
Deferred tax assets (liabilities), net	$22,716	$778

(1) The deferred tax liability balance for basis differences related to assets held for investment includes a basis adjustment on seriously delinquent loans. This deferred tax liability offsets a portion of the deferred tax asset for credit related items and the allowance for loan losses.

As of December 31, 2013, we had a net operating loss carryforward of $11.4 billion and a LIHTC carryforward of $3.6 billion that will expire over multiple years beginning in 2030 and 2027, respectively. Our AMT credit carryforward of $445 million will not expire.

Valuation Allowance Against Net Deferred Tax Assets

As discussed below, after weighing all of the evidence at September 30, 2013, we determined that the positive evidence relating to the realizability of our deferred tax assets, particularly the evidence that was objectively verifiable, outweighed the negative evidence. Accordingly, we concluded that it is more likely than not that our deferred tax assets will be realized and we released the valuation allowance against our net deferred tax assets.

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. In conducting our assessment at September 30, 2013, we evaluated all available objective evidence including, but not limited to: (a) our three-year cumulative income position; (b) the trend of our financial and tax results; (c) the amount of taxable income reported in our 2012 federal income tax return; (d) our tax net operating loss and tax credit carryforwards and the length of carryforward periods available to utilize these assets under current tax law; and (e) our access to capital under the agreements associated with conservatorship. Furthermore, we evaluated all available subjective evidence, including but not limited to: (a) difficulty in predicting unsettled circumstances related to the conservatorship; (b) our estimated

2013 taxable income; and (c) forecasts of future book and tax income. Our consideration of the evidence requires significant judgment regarding estimates and assumptions that are inherently uncertain, particularly about our future business structure and financial results.

We are not permitted to consider the impacts proposed legislation may have on our business operations or the mortgage industry in our analysis because the timing and certainty of those actions are unknown and beyond our control.

The positive evidence at September 30, 2013, that outweighed the negative evidence included the following:

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- Our three-year cumulative income position;
- The strong positive trend in our financial performance over six consecutive quarters;
- The 2012 taxable income reported in our federal tax return which was filed in 2013;
- Our forecasted 2013 and future period taxable income;
- Our net operating loss carryforwards do not begin to expire until 2030; and
- The continuing positive trend in the housing market.

When comparing evidence available at 2013 versus 2012, we noted a number of positive developments. During 2013, we filed our 2012 federal tax return, which reflected taxable income. This was our first year reporting taxable income since 2007. Furthermore, we continued an improved trend in earnings. Our current base forecast of taxable income also improved resulting in a decline in the number of years of projected income required in order to fully realize our net deferred tax asset. These positive developments in addition to the positive evidence discussed above resulted in our conclusion to release the valuation allowance against our net deferred tax assets at September 30, 2013. Given the continued positive trend in our financial performance through the fourth quarter, we determined that a valuation allowance against our net deferred tax asset was not necessary at December 31, 2013.

In future quarters we will continue to evaluate our ability to realize the net deferred tax asset. If evidence in future periods changes such that it is more likely than not that part or all of the net deferred tax asset will not be realized, we will reestablish a valuation allowance at that time.

Unrecognized Tax Benefits and IRS Examinations

Table 12.4 — Unrecognized Tax Benefits

	2013	2012	2011
	(in millions)		
Balance at January 1	$—	$1,355	$1,220
Changes based on tax positions in prior years	—	(41)	130
Changes based on tax positions in current years	—	(28)	6
Decreases in unrecognized tax benefits due to settlements with taxing authorities	—	(1,286)	(1)
Balance at December 31	$—	$—	$1,355

We have evaluated all income tax positions and determined that there are no uncertain tax positions that require reserves as of December 31, 2013.

The IRS is currently examining our income tax returns for tax years 2008 through 2011. We are currently working with the IRS to finalize the stipulation of settled issues and closing agreement for years 1998 through 2010 related to our tax accounting method for certain hedging transactions, and expect that a final decision can be entered within the next 12 months. For additional information, see "NOTE 17: LEGAL CONTINGENCIES."

We have accrued gross interest receivable of $529 million and $523 million as of December 31, 2013 and 2012, respectively, related to payments on account with the IRS. We anticipate refunds of accrued interest receivable upon final settlement of the Statutory Notices for the 1998 to 2005 tax years.

For a discussion of our significant accounting policies related to income taxes, please see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Income Taxes."

NOTE 13: SEGMENT REPORTING

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for additional information about the conservatorship.

We present Segment Earnings by: (a) reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income; and (b) allocating certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments. These reclassifications and allocations are described in "Segment Earnings."

We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business solely in the U.S. and its territories. Therefore, we do not generate any revenue from and do not have any

long-lived assets other than financial instruments in geographic locations outside of the U.S. and its territories.
Segments
Our operations consist of three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. The chart below provides a summary of our three reportable segments and the All Other category as of December 31, 2013. Certain immaterial changes were made to our Segment Earnings definitions in 2013. As reflected in the chart, certain activities that are not part of a reportable segment are included in the All

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Other category. The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods.

Segment	Description	Activities/Items
Single-family Guarantee	The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.	• Management and guarantee fees on PCs, including those retained by us, and single-family mortgage loans in the mortgage investments portfolio, inclusive of up-front credit delivery fees • Recognition and remittance to Treasury of guarantee fees resulting from the 10 basis point legislated increase • Adjustments for security performance • Credit losses on all single-family assets • Guarantee buy-downs • Expected net float income or expense on the single-family credit guarantee portfolio • Deferred tax asset valuation allowance • Allocated debt costs, administrative expenses and taxes • Representation and warranty settlements
Investments	The Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments; (b) managing the treasury function, including funding and liquidity, for the overall company; and (c) managing interest-rate risk for the overall company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses. In addition, the Investments segment reflects changes in the fair value of the Multifamily segment securities, primarily CMBS, and held-for-sale loans that are associated with changes in interest rates.	• Investments in mortgage-related securities and single-family performing mortgage loans • Investments in short-term asset-backed securities • All other traded instruments / securities, excluding CMBS and multifamily housing revenue bonds • Debt issuances • Interest rate risk management returns • Guarantee buy-ups, net of execution gains / losses • Cash and liquidity management • Deferred tax asset valuation allowance • Allocated administrative expenses and taxes • Non-agency mortgage-related securities settlements
Multifamily	The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase	• Multifamily mortgage loans held-for-sale and associated securitization activities • Investments in CMBS, multifamily housing revenue bonds, and multifamily mortgage loans held-for-investment

	multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs. In addition, the Multifamily segment reflects the impact of changes in fair value of our investment securities and held-for-sale loans associated with market factors other than changes in interest rates, such as liquidity and credit.	• Allocated debt costs, administrative expenses and taxes • Other guarantee commitments on multifamily housing revenue bonds • Other Structured Securities of multifamily housing revenue bonds • Deferred tax asset valuation allowance
All Other	The All Other category consists of material corporate-level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments.	• Tax settlements, as applicable • Legal settlements, as applicable • The deferred tax asset valuation allowance and release of tax asset valuation allowance associated with previously recognized income tax credits carried forward • Termination of our pension plan

Segment Earnings

The financial performance of our Single-family Guarantee segment and Multifamily segment are measured based on each segment's contribution to GAAP net income (loss). Our Investments segment is measured on its contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes.

The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss). However, the accounting principles we apply to present certain financial statement line items in Segment Earnings for our reportable segments, in particular Segment Earnings management and guarantee income and net interest income, differ significantly from those applied in preparing the comparable line items in our consolidated financial statements prepared in accordance with GAAP. Accordingly, the results of such line items differ significantly from, and should not be used as a

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substitute for, the comparable line items as determined in accordance with GAAP. For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see "Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

Many of the reclassifications, adjustments and allocations described below relate to the amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs, which we adopted effective January 1, 2010. These amendments require us to consolidate our single-family PC trusts and certain Other Guarantee Transactions, which makes it difficult to view the results of the three operating segments from a GAAP perspective. For example, as a result of the amendments, the net guarantee fee earned on mortgage loans held by our consolidated trusts is included in net interest income on our GAAP consolidated statements of comprehensive income. Through the reclassifications described below, we move the net guarantee fees earned on mortgage loans into Segment Earnings management and guarantee income.

Credit Guarantee Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our credit-guarantee activities, including those described below. All credit guarantee-related income and costs are included in Segment Earnings management and guarantee income.

- Net guarantee fee is reclassified in Segment Earnings from net interest income to management and guarantee income.
- Implied management and guarantee fee related to unsecuritized mortgage loans held in the mortgage investments portfolio is reclassified in Segment Earnings from net interest income to management and guarantee income.
- The portion of the amount reversed for accrued but uncollected interest upon placing loans on a non-accrual status that relates to guarantee fees is reclassified in Segment Earnings from net interest income to management and guarantee income. The remaining portion of the allowance for lost interest is reclassified in Segment Earnings from net interest income to provision for credit losses.

Investment Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our investment activities, including those described below. Through these reclassifications, we move certain items into or out of net interest income so that, on a Segment Earnings basis, net interest income reflects how we measure the effective yield earned on securities held in our mortgage investments portfolio and our cash and other investments portfolio.

We use derivatives extensively in our investment activity. The reclassifications described below allow us to reflect, in Segment Earnings net interest income, the costs associated with this use of derivatives.

- The accrual of periodic cash settlements of all derivatives is reclassified in Segment Earnings from derivative gains (losses) into net interest income to fully reflect the periodic cost associated with the protection provided by these contracts.
- Up-front cash paid or received upon the purchase or writing of swaptions and other option contracts is reclassified in Segment Earnings prospectively on a straight-line basis from derivative gains (losses) into net interest income over the contractual life of the instrument to fully reflect the periodic cost associated with the protection provided by these contracts.

Amortization related to certain items is not relevant to how we measure the effective yield earned on the securities held in our investments portfolios. Therefore, as described below, we reclassify these items in Segment Earnings from net interest income to non-interest income.

- Amortization related to derivative commitment basis adjustments associated with mortgage-related and non-mortgage-related securities.
- Amortization related to accretion of other-than-temporary impairments on available-for-sale securities held.
- Amortization related to premiums and discounts associated with PCs and Other Guarantee Transactions issued by our consolidated trusts that we previously held and subsequently transferred to third parties. The amortization is related to deferred gains (losses) on transfers of these securities.

Segment Adjustments

In presenting Segment Earnings management and guarantee income and net interest income, we make adjustments to better reflect how management measures and assesses the performance of each segment and the company as a whole.

These adjustments relate to amounts that are not reflected in net income (loss) as determined in accordance with GAAP. These adjustments are reversed through the segment adjustments line item within Segment Earnings, so that Segment Earnings (loss) for each segment equals GAAP net income (loss) for each segment. Segment adjustments consist of the following:

- We adjust our Segment Earnings management and guarantee income for the Single-family Guarantee segment to include the amortization of buy-down fees and credit delivery fees recorded in periods prior to the January 1, 2010 adoption of accounting guidance for the transfers of financial assets and the consolidation of VIEs. As of December 31, 2013, the unamortized balance of buy-down fees was $0.4 billion and the unamortized balance of credit delivery fees

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was $0.9 billion. We consider such fees to be part of the effective rate of the guarantee fee on guaranteed mortgage loans. These adjustments are necessary to better reflect the realization of revenue associated with guarantee contracts over the life of the underlying loans.

- We adjust our Segment Earnings net interest income for the Investments segment to include the amortization of cash premiums and discounts, as well as buy-up fees, on the consolidated Freddie Mac mortgage-related securities we purchase as investments. As of December 31, 2013, the unamortized balance of such premiums and discounts, net was $3.2 billion and the unamortized balance of buy-up fees was $0.5 billion. These adjustments are necessary to reflect the effective yield realized on investments in consolidated Freddie Mac mortgage-related securities purchased at a premium or discount or with buy-up fees.

Segment Allocations

The results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated to our segments using various methodologies, depending on the nature of the expense (i.e., semi-direct versus indirect). Net interest income for each segment includes allocated debt funding costs related to certain assets of each segment. These allocations, however, do not include the effects of dividends paid on our senior preferred stock. The tax credits generated by the LIHTC partnerships and any valuation allowance on these tax credits are allocated to the Multifamily segment. The deferred tax asset valuation allowance and release of the tax asset valuation allowance associated with previously recognized income tax credits carried forward, termination of our pension plan, and legal and tax settlements, as applicable, are allocated to the All Other category. All remaining taxes are calculated based on a 35% federal statutory rate as applied to pre-tax Segment Earnings.

The table below presents Segment Earnings by segment.

Table 13.1 — Summary of Segment Earnings and Comprehensive Income (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Segment Earnings (loss), net of taxes:			
Single-family Guarantee	$5,796	$(164)	$(10,000)
Investments	16,602	8,212	3,366
Multifamily	2,378	2,146	1,319
All Other[(1)]	23,892	788	49
Total Segment Earnings (loss), net of taxes	48,668	10,982	(5,266)
Net income (loss)	$48,668	$10,982	$(5,266)
Comprehensive income (loss) of segments:			
Single-family Guarantee	$5,845	$(227)	$(9,970)
Investments	20,287	11,397	6,473
Multifamily	1,455	4,081	2,218
All Other[(1)]	24,013	788	49
Comprehensive income (loss) of segments	51,600	16,039	(1,230)
Comprehensive income (loss)	$51,600	$16,039	$(1,230)

(1) For the year ended December 31, 2013, includes a benefit for federal income taxes that resulted from the release of our valuation allowance against our net deferred tax assets.

The table below presents detailed reconciliations between our GAAP financial statements and Segment Earnings by financial statement line item for our reportable segments and All Other.

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Table 13.2 — Segment Earnings and Reconciliation to GAAP Results

	Year Ended December 31, 2013								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reclassifications[1]	Segment Adjustments[2]	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$320	$ 3,525	$ 1,186	$—	$ 5,031	$ 10,400	$ 1,037	$ 11,437	$ 16,468
Benefit (provision) for credit losses	1,409	—	218	—	1,627	838	—	838	2,465
Non-interest income (loss):									
Management and guarantee income[3]	4,930	—	206	—	5,136	(4,171)	(694)	(4,865)	271
Net impairment of available-for-sale securities recognized in earnings	—	(974)	(15)	—	(989)	(521)	—	(521)	(1,510)
Derivative gains (losses)	(3)	6,806	18	—	6,821	(4,189)	—	(4,189)	2,632
Gains (losses) on trading securities	—	(1,588)	(10)	—	(1,598)	—	—	—	(1,598)
Gains (losses) on mortgage loans	—	(817)	481	—	(336)	—	—	—	(336)
Other non-interest income	1,165	9,612	640	—	11,417	(2,357)	—	(2,357)	9,060
Non-interest expense:									
Administrative expenses	(1,025)	(523)	(257)	—	(1,805)	—	—	—	(1,805)
REO operations income (expense)	124	—	16	—	140	—	—	—	140
Other non-interest expense	(712)	349	(24)	(37)	(424)	—	—	—	(424)
Segment adjustments[2]	(694)	1,037	—	—	343	—	(343)	(343)	—
Income tax (expense) benefit	282	(825)	(81)	23,929	23,305	—	—	—	23,305
Net income	5,796	16,602	2,378	23,892	48,668	—	—	—	48,668
Total other comprehensive income (loss), net	49	3,685	(923)	121	2,932	—	—	—	2,932

of taxes									
Comprehensive income	$5,845	$ 20,287	$ 1,455	$24,013	$51,600	$—	$ —	$ —	$ 51,600

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	Year Ended December 31, 2012								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reclassifications[1]	Segment Adjustments[2]	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$(147)	$ 5,726	$ 1,291	$—	$ 6,870	$9,942	$ 799	$ 10,741	$ 17,611
Benefit (provision) for credit losses	(3,168)	—	123	—	(3,045)	1,155	—	1,155	(1,890)
Non-interest income (loss):									
Management and guarantee income[3]	4,389	—	151	—	4,540	(3,507)	(832)	(4,339)	201
Net impairment of available-for-sale securities recognized in earnings	—	(1,831)	(123)	—	(1,954)	(214)	—	(214)	(2,168)
Derivative gains (losses)	—	1,970	7	—	1,977	(4,425)	—	(4,425)	(2,448)
Gains (losses) on trading securities	—	(1,755)	81	—	(1,674)	—	—	—	(1,674)
Gains (losses) on mortgage loans	—	303	707	—	1,010	—	—	—	1,010
Other non-interest income	931	2,741	275	—	3,947	(2,951)	—	(2,951)	996
Non-interest expense:									
Administrative expenses	(890)	(430)	(241)	—	(1,561)	—	—	—	(1,561)
REO operations income (expense)	(62)	—	3	—	(59)	—	—	—	(59)
Other non-interest expense	(393)	(1)	(129)	(50)	(573)	—	—	—	(573)
Segment adjustments[2]	(832)	799	—	—	(33)	—	33	33	—
Income tax benefit	8	690	1	838	1,537	—	—	—	1,537
Net income (loss)	(164)	8,212	2,146	788	10,982	—	—	—	10,982
Total other comprehensive income (loss), net of taxes	(63)	3,185	1,935	—	5,057	—	—	—	5,057

Comprehensive income (loss)	$(227)	$ 11,397	$ 4,081	$788	$ 16,039	$—	$ —	$ —	$ 16,039

	Year Ended December 31, 2011								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reclassifications(1)	Segment Adjustments(2)	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$(23)	$ 7,168	$ 1,200	$—	$ 8,345	$9,391	$ 661	$ 10,052	$ 18,397
Benefit (provision) for credit losses	(12,294)	—	196	—	(12,098)	1,396	—	1,396	(10,702)
Non-interest income (loss):									
Management and guarantee income(3)	3,647	—	127	—	3,774	(2,905)	(699)	(3,604)	170
Net impairment of available-for-sale securities recognized in earnings	—	(1,833)	(353)	—	(2,186)	(115)	—	(115)	(2,301)
Derivative gains (losses)	—	(3,597)	3	—	(3,594)	(6,158)	—	(6,158)	(9,752)
Gains (losses) on trading securities	—	(993)	39	—	(954)	—	—	—	(954)
Gains (losses) on mortgage loans	—	529	300	—	829	—	—	—	829
Other non-interest income	1,216	1,437	86	—	2,739	(1,609)	—	(1,609)	1,130
Non-interest expense:									
Administrative expenses	(888)	(398)	(220)	—	(1,506)	—	—	—	(1,506)
REO operations income (expense)	(596)	—	11	—	(585)	—	—	—	(585)
Other non-interest expense	(321)	(2)	(69)	—	(392)	—	—	—	(392)
Segment adjustments(2)	(699)	661	—	—	(38)	—	38	38	—
Income tax (expense) benefit	(42)	394	(1)	49	400	—	—	—	400
Net income (loss)	(10,000)	3,366	1,319	49	(5,266)	—	—	—	(5,266)
Total other comprehensive income, net of taxes	30	3,107	899	—	4,036	—	—	—	4,036

Comprehensive income (loss)	$(9,970)	$ 6,473	$ 2,218	$49	$(1,230)	$—	$ —	$ —	$ (1,230)

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(1) See “Segment Earnings — Investment Activity-Related Reclassifications” and “— Credit Guarantee Activity-Related Reclassifications” for information regarding these reclassifications.
(2) See “Segment Earnings — Segment Adjustments” for information regarding these adjustments.
(3) Management and guarantee income total per consolidated statements of comprehensive income is included in other income on our GAAP consolidated statements of comprehensive income.

The table below presents comprehensive income (loss) by segment.

Table 13.3 — Comprehensive Income (Loss) of Segments

	Year Ended December 31, 2013					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss)	Changes in Unrealized Gains (Losses) Related to Available-For-Sale Securities	Changes in Unrealized Gains (Losses) Related to Cash Flow Hedge Relationships	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Comprehensive Income (Loss)
	(in millions)					
Total comprehensive income (loss) of segments:						
Single-family Guarantee	$5,796	$—	$—	$49	$ 49	$ 5,845
Investments	16,602	3,338	316	31	3,685	20,287
Multifamily	2,378	(932)	—	9	(923)	1,455
All Other	23,892	—	—	121	121	24,013
Total per consolidated statements of comprehensive income	$48,668	$2,406	$316	$210	$ 2,932	$ 51,600

	Year Ended December 31, 2012					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss)	Changes in Unrealized Gains (Losses) Related to Available-For-Sale Securities	Changes in Unrealized Gains (Losses) Related to Cash Flow Hedge Relationships	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Comprehensive Income (Loss)
	(in millions)					
Total comprehensive income (loss) of segments:						
Single-family Guarantee	$(164)	$—	$—	$(63)	$ (63)	$ (227)
Investments	8,212	2,821	414	(50)	3,185	11,397
Multifamily	2,146	1,948	—	(13)	1,935	4,081
All Other	788	—	—	—	—	788
	$10,982	$4,769	$414	$(126)	$ 5,057	$ 16,039

Total per consolidated statements of comprehensive income

	Year Ended December 31, 2011					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss)	Changes in Unrealized Gains (Losses) Related to Available-For-Sale Securities	Changes in Unrealized Gains (Losses) Related to Cash Flow Hedge Relationships	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Comprehensive Income (Loss)
	(in millions)					
Total comprehensive income (loss) of segments:						
Single-family Guarantee	$(10,000)	$—	$—	$30	$ 30	$ (9,970)
Investments	3,366	2,573	508	26	3,107	6,473
Multifamily	1,319	892	1	6	899	2,218
All Other	49	—	—	—	—	49
Total per consolidated statements of comprehensive income	$(5,266)	$3,465	$509	$62	$ 4,036	$ (1,230)

NOTE 14: FINANCIAL GUARANTEES

We provide financial guarantees to securitization trusts that issue mortgage-related securities backed by single-family mortgage loans, which we consolidate. During the years ended December 31, 2013 and 2012, we issued approximately $425.6 billion and $439.3 billion, respectively, in UPB of Freddie Mac mortgage-related securities backed by single-family mortgage loans (excluding those backed by HFA bonds). For guarantees to consolidated securitization trusts, our exposure to these guarantees is generally the UPB of the loans recorded on our consolidated balance sheets.

We also provide guarantees to non-consolidated securitization trusts that issue mortgage-related securities as well as in other guarantee commitments. If we are exposed to incremental credit risk by providing these guarantees, we charge a management and guarantee fee and recognize a guarantee asset, guarantee obligation, and a reserve for guarantee losses, as necessary.

The table below presents our maximum potential exposure, our recognized liability, and the maximum remaining term of our financial guarantees that are not consolidated on our balance sheets.

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Table 14.1 — Financial Guarantees

	December 31, 2013			December 31, 2012		
	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term
	(dollars in millions, terms in years)					
Non-consolidated Freddie Mac securities(3)	$71,809	$731	40	$50,715	$430	41
Other guarantee commitments	29,160	791	36	23,455	575	37
Derivative instruments(4)	9,856	239	32	10,306	789	33
Servicing-related premium guarantees	281	—	5	210	—	5

(1) Maximum exposure represents the contractual amounts that could be lost under the non-consolidated guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. The maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation. The maximum exposure for our liquidity guarantees is not mutually exclusive of our default guarantees on the same securities; therefore, these amounts are included within the maximum exposure of non-consolidated Freddie Mac securities and other guarantee commitments.

(2) For non-consolidated Freddie Mac securities and other guarantee commitments, this amount represents the guarantee obligation on our consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled $111 million and $183 million as of December 31, 2013 and 2012, respectively, and is included within other liabilities on our consolidated balance sheets.

(3) In addition to our guarantee of principal and interest, we also provide liquidity guarantees for certain multifamily housing revenue bonds included in this category. However, no advances under these liquidity guarantees were outstanding at December 31, 2013 or 2012.

(4) See “NOTE 9: DERIVATIVES” for information about these derivative guarantees.

Non-Consolidated Freddie Mac Securities

We issue three types of mortgage-related securities: (a) PCs; (b) REMICs and Other Structured Securities; and (c) Other Guarantee Transactions. We guarantee the payment of principal and interest to the trusts which issue these securities, which are backed by pools of mortgage-related assets, irrespective of the cash flows received from the borrowers.

Our single-family securities issued in resecuritizations of our PCs and other previously issued REMICs and Other Structured Securities are not consolidated unless we hold substantially all of the beneficial interests of the trust and are therefore considered the primary beneficiary of the trust. Our resecuritizations of PCs and other previously issued REMICs and Structured Securities do not give rise to any additional exposure to credit loss as we already consolidate the underlying collateral. The securities issued in these resecuritizations consist of single-class and multiclass securities backed by PCs, REMICs, interest-only strips, and principal-only strips. Since these resecuritizations do not increase our credit-risk, no guarantee asset or guarantee obligation is recognized for these transactions and they are excluded from the table above.

During 2013 we issued approximately $23.7 billion, compared to $17.5 billion in 2012, in UPB of Other Guarantee Transactions, all of which were backed by multifamily mortgage loans, for which a guarantee asset and guarantee obligation were recognized.

For many of the loans underlying our non-consolidated guarantees, there are credit protections from third parties, including subordination, covering a portion of our exposure. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS

RESERVES" for information about credit protections on loans we guarantee.
Other Guarantee Commitments
We provide long-term standby commitments to certain of our customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. During 2013 and 2012, we issued and guaranteed $9.9 billion and $6.8 billion, respectively, in UPB of long-term standby commitments. These long-term standby commitments totaled $19.2 billion and $12.4 billion of UPB at December 31, 2013 and 2012, respectively. We also had other guarantee commitments on multifamily housing revenue bonds that were issued by HFAs of $9.1 billion and $9.4 billion in UPB at December 31, 2013 and 2012, respectively. In addition, as of December 31, 2013 and 2012, we had issued guarantees under the TCLFP on securities backed by HFA bonds with UPB of $0.9 billion and $1.7 billion, respectively.
Derivative Instruments
Derivative instruments include written options, written swaptions, interest-rate swap guarantees, and short-term default guarantee commitments accounted for as credit derivatives. See "NOTE 9: DERIVATIVES" for further discussion of these derivative guarantees.
We guarantee the performance of interest-rate swap contracts in two circumstances. First, in connection with certain other guarantee commitments, we guarantee that a multifamily borrower will perform under an interest-rate swap contract linked to the borrower's ARM. And second, in connection with our issuance of certain REMICs and Other Structured Securities, which are backed by tax-exempt bonds, we guarantee that the sponsor of the transaction will perform under the interest-rate swap contract linked to the senior variable-rate certificates that we issued.

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We also have issued certain REMICs and Other Structured Securities with stated final maturities that are shorter than the stated maturity of the underlying mortgage loans. If the underlying mortgage loans to these securities have not been purchased by a third party or fully matured as of the stated final maturity date of such securities, we will sponsor an auction of the underlying assets. To the extent that purchase or auction proceeds are insufficient to cover unpaid principal amounts due to investors in such REMICs and Other Structured Securities, we are obligated to fund such principal. Our maximum exposure on these derivative guarantees represents the outstanding UPB of the REMICs and Other Structured Securities subject to stated final maturities.

Other Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (e.g., those arising from representations and warranties) in contracts entered into in the normal course of business. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no significant probable and estimable losses associated with these contracts. In addition, we provided indemnification for litigation defense costs to certain former officers who are subject to ongoing litigation. See “NOTE 17: LEGAL CONTINGENCIES” for further information on ongoing litigation. The recognized liabilities on our consolidated balance sheets related to indemnifications were not significant at December 31, 2013 and 2012.

As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees.” These guarantees require us to advance funds to enable others to repurchase any tendered tax-exempt and related taxable bonds that are unable to be remarketed. Any such advances are treated as loans and are secured by a pledge to us of the repurchased securities until the securities are remarketed. We hold cash and cash equivalents on our consolidated balance sheets for the amount of these commitments. No advances under these liquidity guarantees were outstanding at December 31, 2013 and 2012.

NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS

Single-Family Credit Guarantee Portfolio

Our business activity is to participate in and support the residential mortgage market in the United States, which we pursue by both issuing guaranteed mortgage securities and investing in mortgage loans and mortgage-related securities.

The table below summarizes the concentration by year of origination and geographical area of the approximately $1.7 trillion and $1.6 trillion UPB of our single-family credit guarantee portfolio at December 31, 2013 and 2012, respectively. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES”, "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES”, and “NOTE 7: INVESTMENTS IN SECURITIES” for more information about credit risk associated with loans and mortgage-related securities that we hold.

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Table 15.1 — Concentration of Credit Risk — Single-Family Credit Guarantee Portfolio

	December 31, 2013		December 31, 2012		Percent of Credit Losses(1) Year Ended	
	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	December 31, 2013	December 31, 2012
Year of Origination						
2013	16 %	— %	N/A	N/A	<1 %	N/A
2012	16	—	14 %	— %	<1	<1 %
2011	8	0.2	10	0.1	<1	<1
2010	7	0.4	10	0.3	1	1
2009	7	0.9	11	0.7	2	1
Subtotal - New single-family book	54	0.2	45	0.3	3	2
HARP and other relief refinance loans(3)	21	0.6	18	0.7	7	2
2005 to 2008 Legacy single-family book	16	8.8	24	9.6	81	87
Pre-2005 Legacy single-family book	9	3.2	13	3.2	9	9
Total	100 %	2.4 %	100 %	3.3 %	100 %	100 %
Region(4)						
West	28 %	1.7 %	28 %	2.8 %	24 %	44 %
Northeast	26	3.2	25	3.8	15	8
North Central	18	1.8	18	2.5	23	20
Southeast	16	3.4	17	5.0	35	24
Southwest	12	1.4	12	1.7	3	4
Total	100 %	2.4 %	100 %	3.3 %	100 %	100 %
State						
Arizona, California, Florida, and Nevada(5)	26 %	3.0 %	25 %	5.0 %	47 %	54 %
Illinois, Michigan, and Ohio(6)	11	2.1	11	3.0	19	15
New York and New Jersey(7)	9	5.1	9	5.5	3	2
All other	54	1.9	55	2.4	31	29
Total	100 %	2.4 %	100 %	3.3 %	100 %	100 %

(1) Credit losses consist of the aggregate amount of charge-offs, net of recoveries, and REO operations expense in each of the respective periods and exclude foregone interest on non-performing loans and other market-based losses recognized on our consolidated statements of comprehensive income.

(2) Based on the UPB of our single-family credit guarantee portfolio, which includes unsecuritized single-family mortgage loans held by us on our consolidated balance sheets and those underlying Freddie Mac mortgage-related securities, or covered by our other guarantee commitments.

(3) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2013). All other refinance loans are presented in the year that the refinancing occurred. Prior period information has been revised to conform with the current period presentation.

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

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

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

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

Credit Performance of Certain Higher Risk Single-Family Loan Categories

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. However, there is no universally accepted definition of subprime or Alt-A. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance mortgage initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage 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

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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 mortgage loans we purchase or guarantee as prime or subprime, we recognize that there are a number of mortgage loan types with certain characteristics that indicate a higher degree of credit risk. 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 single-family 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.

Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	Percentage of Portfolio[1]		Serious Delinquency Rate	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Interest-only	2 %	3 %	12.5 %	16.3 %
Option ARM[2]	<1	<1	12.3	16.3
Alt-A[3]	3	5	10.1	11.4
Original LTV ratio greater than 90%[4]	16	13	3.2	4.8
Lower FICO scores at origination (less than 620)	3	3	10.0	12.2

(1) Based on UPB.

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

(3) Alt-A loans may not include those loans that were previously classified as Alt-A and that have been refinanced as either a relief refinance mortgage or in another refinance mortgage initiative.

(4) Includes HARP loans, which we are required to purchase as part of our participation in the MHA Program.

The percentage of borrowers in our single-family credit guarantee portfolio, based on UPB, with estimated current LTV ratios greater than 100% was 10% and 15% at December 31, 2013 and 2012, respectively. An increase in the estimated current LTV ratio of a loan indicates that the borrower's equity in the home has declined, and can negatively affect the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan. The serious delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 9.9% and 12.7% as of December 31, 2013 and 2012, respectively. Loans in our 2005-2008 Legacy single-family book have been more affected by declines in home prices during the housing crisis that began in 2006 than loans originated in other years. Our 2005-2008 Legacy single-family book comprised approximately 16% of our single-family credit guarantee portfolio, based on UPB at December 31, 2013, and these loans accounted for approximately 81% and 87% of our credit losses during 2013 and 2012, respectively.

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. See "NOTE 7: INVESTMENTS IN SECURITIES" for further information on these categories and other concentrations in our investments in securities.

Multifamily Mortgage Portfolio

The table below summarizes the concentration of multifamily mortgages in our multifamily mortgage portfolio by certain attributes. Information presented for multifamily mortgage loans includes certain categories based on loan or borrower characteristics present at origination. The table includes a presentation of each category in isolation. A single loan may fall within more than one category (for example, a loan with an original LTV ratio greater than 80% may also have an original DSCR below 1.10).

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Table 15.3 — Concentration of Credit Risk — Multifamily Mortgage Portfolio

	December 31, 2013		December 31, 2012	
	UPB	Delinquency Rate[1]	UPB	Delinquency Rate[1]
	(dollars in billions)			
State[2]				
California	$22.4	0.03 %	$21.1	0.12 %
Texas	16.7	0.02	15.9	0.13
New York	11.4	0.12	10.7	0.09
Florida	9.3	0.28	8.4	0.12
Virginia	7.0	0.37	6.6	—
Maryland	6.7	—	6.9	—
All other states	59.3	0.08	57.8	0.32
Total	$132.8	0.09 %	$127.4	0.19 %
Region[3]				
Northeast	$37.5	0.10 %	$36.1	0.04 %
West	33.8	0.07	31.8	0.09
Southwest	26.2	0.05	25.4	0.22
Southeast	24.1	0.16	23.4	0.54
North Central	11.2	0.07	10.7	0.19
Total	$132.8	0.09 %	$127.4	0.19 %
Other Categories[4]				
Original LTV ratio greater than 80%	$5.6	0.19 %	$5.8	2.31 %
Original DSCR below 1.10	2.2	—	2.3	2.97

(1) Based on the UPB of multifamily mortgages two monthly payments or more delinquent or in foreclosure.

(2) Represents the six states with the highest UPB at December 31, 2013.

(3) See endnote (4) to "Table 15.1 — Concentration of Credit Risk — Single-Family Credit Guarantee Portfolio" for a description of these regions.

(4) These categories are not mutually exclusive and a loan in one category may also be included within another category.

One indicator of risk for mortgage loans in our multifamily mortgage portfolio is the amount of a borrower's equity in the underlying property. A borrower's equity in a property decreases as the LTV ratio increases. Higher LTV ratios negatively affect a borrower's ability to refinance or sell a property for an amount at or above the balance of the outstanding mortgage. The DSCR is another indicator of future credit performance. The DSCR estimates a multifamily borrower's ability to service its mortgage obligation using the secured property's cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely it is that a multifamily borrower will be able to continue servicing its mortgage obligation.

We estimate that the percentage of loans in our multifamily mortgage portfolio with a current LTV ratio of greater than 100% was approximately 2% and 3% at December 31, 2013 and 2012, respectively, and our estimate of the current average DSCR for these loans was 0.95 and 1.0, respectively. We estimate that the percentage of loans in our multifamily mortgage portfolio with a current DSCR less than 1.0 was 3% at both December 31, 2013 and 2012 and the average current LTV ratio of these loans was 95% and 111%, respectively. Our estimates of current DSCRs are based on the latest available income information for these properties and our assessments of market conditions. Our estimates of the current LTV ratios are based on values we receive from a third-party service provider as well as our internal estimates of property value, for which we may use changes in tax assessments, market vacancy rates, rent growth and comparable property sales in local areas as well as third-party appraisals for a portion of the portfolio. We periodically perform our own valuations or obtain third-party appraisals in cases where a significant deterioration in a borrower's financial condition has occurred, the borrower has applied for refinancing, or in certain other circumstances where we deem it appropriate to reassess the property value. Although we use the most recently available financial results of our multifamily borrowers to estimate a property's value, there may be a significant lag in reporting, which could be six months or more, as they complete their financial results in the normal course of business. Our internal estimates of property valuation are derived using techniques that include income capitalization, discounted cash flows, comparable sales, or replacement costs.

Seller/Servicers

We acquire a significant portion of our single-family mortgage purchase volume from several large seller/servicers and we are exposed to the risk that we could lose purchase volume to the extent certain arrangements with these lenders are terminated. Our top 10 single-family seller/servicers provided approximately 64% of our single-family purchase volume during 2013. Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A. accounted for 17% and 13%, respectively, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during 2013.

We are exposed to institutional credit risk arising from the potential insolvency or non-performance by our seller/servicers of their obligations to repurchase mortgages or (at our option) indemnify us in the event of:
(a) breaches of the representations and warranties they made when they sold the mortgages to us; or (b) failure to comply with our servicing requirements. Our contracts require that a seller/servicer repurchase a mortgage after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended until we decide on the appeal. As of December 31, 2013 and 2012, the UPB of loans subject to our repurchase requests (seller and servicer related) issued to our single-family seller/servicers was approximately $2.2 billion and $3.0 billion, of which approximately 27% and 41%, respectively, were outstanding for four months or more since issuance as measured by the related UPB of the loans (these figures include repurchase requests for which appeals were pending). As of December 31, 2013, two of our largest seller/servicers (Bank of America, N.A. and JPMorgan Chase Bank, N.A.) had aggregate repurchase requests outstanding, based on UPB, of $0.9 billion, and approximately 49% were outstanding for four months or more since issuance. During 2013 and 2012, we recovered amounts that covered losses with respect to $5.6 billion and $3.5 billion, respectively, in UPB of loans subject to our repurchase requests.

During 2013, we entered into settlement agreements with a number of counterparties to release specified loans from certain seller repurchase obligations in exchange for one-time cash payments, which totaled approximately $2.4 billion in aggregate. These agreements related to loans with $280.4 billion in aggregate principal amount (as of the dates of the respective agreements) and we recognized a benefit for credit losses of $1.7 billion included within our consolidated statement of operations during 2013. The counterparties to these agreements included GMAC Mortgage LLC, Wells Fargo Bank, N.A., CitiMortgage, Inc., Citibank, N.A., SunTrust Mortgage, Inc., JPMorgan Chase Bank, N.A., Bank of America, N.A., FifthThird Bank, N.A., PNC Bank, N.A., U.S. Bancorp, and Flagstar Bank, FSB.

As of December 31, 2013, single-family loans with aggregate UPB of approximately $389.6 billion (representing 24% of our single-family credit guarantee portfolio) had been released from repurchase obligations primarily because either: (a) the mortgages are subject to negotiated agreements; or (b) the seller/servicers were no longer in business and their obligations have been discharged or a settlement amount was determined in bankruptcy or receivership proceedings.

At the direction of FHFA, Freddie Mac and Fannie Mae have launched a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework is to clarify lenders' repurchase exposures and liability on future sales of mortgage loans to Freddie Mac and Fannie Mae. The new framework does not affect seller/servicers' obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. Under this new framework, lenders will be relieved of certain repurchase obligations for loans that meet specific payment requirements. This includes, subject to certain exclusions, loans with 36 months (12 months for relief refinance mortgages) of consecutive, on-time payments after we purchase them.

As of December 31, 2013, approximately 24% in UPB of loans in our single-family credit guarantee portfolio were purchased during 2013 and subject to this representation and warranty framework.

The ultimate amounts of recovery payments we receive from seller/servicers related to their repurchase obligations may be significantly less than the amount of our estimates of potential exposure to losses. Our estimate of probable incurred losses for exposure to seller/servicers for their repurchase obligations is considered in our allowance for loan losses. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Allowance for Loan Losses and Reserve for Guarantee Losses" for further information. We believe we have appropriately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves; however, our actual losses may exceed our estimates.

We are also exposed to the risk that seller/servicers might fail to service mortgages in accordance with our contractual requirements, resulting in increased credit losses. For example, our seller/servicers have an active role in our loss mitigation efforts, including under the servicing alignment initiative and the MHA Program, and therefore, we have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of

our loss mitigation plans. Since we do not have our own servicing operation, if our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, our business and financial results could be adversely affected.
A significant portion of our single-family mortgage loans are serviced by several large seller/servicers. Our top two single-family loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 24% and 13%, respectively, of our single-family mortgage loans, as of December 31, 2013 and together serviced approximately 37% of our single-family mortgage loans.
As of December 31, 2013 our top three multifamily servicers, Berkadia Commercial Mortgage LLC, Wells Fargo Bank, N.A., and CBRE Capital Markets, Inc., each serviced more than 10% of our multifamily mortgage portfolio, excluding K Certificates, and together serviced approximately 37% of this portfolio.

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In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property's financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk. We monitor the status of all our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgages we purchase or guarantee. We evaluate the recovery and collectability from insurance policies for mortgage loans that we hold for investment as well as loans underlying our non-consolidated Freddie Mac mortgage-related securities or covered by other guarantee commitments as part of the estimate of our loan loss reserves. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Allowance for Loan Losses and Reserve for Guarantee Losses" for additional information. As of December 31, 2013, mortgage insurers provided coverage with maximum loss limits of $52.0 billion, for $209.9 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both primary and pool insurance. Our top four mortgage insurer counterparties, Mortgage Guaranty Insurance Corporation (MGIC), Radian Guaranty Inc. (Radian), United Guaranty Residential Insurance Company, and Genworth Mortgage Insurance Corporation each accounted for more than 10% and collectively represented approximately 78% of our overall mortgage insurance coverage at December 31, 2013. Three of our mortgage insurance counterparties are no longer rated by either S&P or Moody's because they are under court-ordered or state supervision. Of our four largest counterparties, three are rated B, and one is rated BBB+, as of December 31, 2013, based on the lower of the S&P or Moody's rating scales and stated in terms of the S&P equivalent.

We and MGIC were involved in litigation concerning our current and future claims under certain of MGIC's pool insurance policies. In the litigation, we contended that the policies had approximately $0.5 billion more in coverage than MGIC contended was provided for under the policies. In December 2012, we entered into a settlement agreement with MGIC concerning this dispute. Under the terms of the settlement, MGIC paid us $100 million in December 2012, and is paying us an additional $167.5 million in monthly installments over four years beginning on January 2, 2013.

We received proceeds of $2.0 billion during both 2013 and 2012 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 $0.7 billion and $1.3 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of December 31, 2013 and 2012, respectively. The balance of our outstanding accounts receivable from mortgage insurers, net of associated reserves, was approximately $0.5 billion and $0.8 billion at December 31, 2013 and 2012, respectively.

In August 2013, we entered into an agreement with Radian involving approximately 26,000 single-family loans held by us and insured by Radian that were in default as of December 31, 2011. The agreement generally resolves outstanding and future primary mortgage insurance claims by us against Radian with respect to these loans. In connection with this agreement, Radian paid us $255 million and also deposited $205 million in an escrow account in which we hold a secured interest. Subject to terms and conditions of the agreement, the funds in the escrow account will be returned to Radian to the extent of Radian's final rescission, cancellation, curtailment or denial of filed claims. Freddie Mac will receive any funds in the account that are not returned to Radian. The agreement does not affect our right to pursue repurchase remedies against seller/servicers related to Radian's insurance rescissions and claim denials on these loans.

In August 2011, we suspended Republic Mortgage Insurance Corporation (or RMIC) and its affiliates, and PMI Mortgage Insurance Co. (or PMI) and its affiliates as approved mortgage insurers for Freddie Mac loans, making loans insured by them ineligible for sale to Freddie Mac (except relief refinance loans with pre-existing insurance). Both RMIC and PMI ceased writing new business during the third quarter of 2011. RMIC instituted a partial claim payment plan in January 2012, under which claim payments were made 50% in cash and 50% in deferred payment obligations for an initial period not to exceed one year. In November 2012, RMIC announced that its state regulator approved its corrective plan, which provided for the run-off of its existing business. Under the corrective plan, RMIC is paying claims, settled on or after January 19, 2012, 60% in cash and a deferred payment obligation for the remaining 40% which will be retained in claim reserves until a future pay-out date. PMI instituted a partial claim payment plan in October 2011, under which claim payments were made 50% in cash, with the remaining amount deferred as a policyholder claim. In April 2013, PMI began paying valid claims 55% in cash and 45% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled at 50% in cash. In June 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations under order of its state regulator. In October 2013, Triad's plan of rehabilitation was approved. In December 2013, under this plan, Triad began paying valid claims 75% in cash and a one-time cash payment was made to us for claims previously settled for 60% in cash.

It is not clear how the regulators of PMI, RMIC, or Triad will administer the balance of their respective deferred payment plans, nor when or if those obligations will be paid.

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Bond Insurers

Bond insurance, which may be either primary or secondary policies, is a credit enhancement covering some of the non-agency mortgage-related securities we hold. Primary policies are acquired by the securitization trust issuing the securities we purchase, while secondary policies are acquired by us. At December 31, 2013, the maximum principal exposure to credit losses related to such policies was $7.8 billion. At December 31, 2013, our top four bond insurers, Ambac Assurance Corporation (or Ambac), Financial Guaranty Insurance Company (or FGIC), National Public Finance Guarantee Corp., and MBIA Insurance Corp., each accounted for more than 10% of our overall bond insurance coverage and collectively represented approximately 90% of our total coverage.

In June 2012, a rehabilitation order was signed granting the Superintendent of Financial Services of the State of New York the authority to take possession and/or control of FGIC's property and assets and to conduct FGIC's business. In September 2012, the Superintendent of Financial Services filed a proposed plan of rehabilitation for FGIC. Certain trustees objected to the proposed plan, and a revised plan was filed in December 2012. In June 2013, FGIC's plan of rehabilitation was approved under which permitted claims will be paid 17% in cash and the remainder in deferred payment obligations. FGIC has begun payment of initial permitted claims and settlement of deferred obligations in accordance with the plan.

In the third quarter of 2012, Ambac, which had not paid claims since March 2010, began making partial cash payments of the permitted amount of each policy claim. In 2013, Ambac also began making supplemental payments, equal to all or a portion of the permitted policy claim, with respect to certain specified securities. In March 2010, Ambac established a segregated account for certain Ambac-insured securities, including some of those held by Freddie Mac. Upon the request of the Wisconsin Office of the Commissioner of Insurance, the Wisconsin circuit court put the segregated account into rehabilitation (i.e., a state insolvency proceeding). The Office of the Commissioner of Insurance subsequently filed a plan of rehabilitation with the court. The plan was approved by the court in January 2011, but has not yet been implemented due to various disputes among interested parties. In November 2010, Ambac Financial Group Inc., the parent company of Ambac, filed for bankruptcy.

We expect to receive substantially less than full payment of our claims from Ambac and FGIC as these companies are either insolvent or in rehabilitation. We believe that we will also likely receive substantially less than full payment of our claims from some of our other bond insurers, because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge. We evaluate the expected recovery from primary bond insurance policies as part of our impairment analysis for our investments in securities. See "NOTE 7: INVESTMENTS IN SECURITIES" for further information on our evaluation of impairment on securities covered by bond insurance.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. Our policies require that the issuer be rated as investment grade at the time the financial instrument is purchased. We base the permitted term and dollar limits for each of these transactions on the counterparty's financial strength in order to further mitigate our risk.

Our cash and other investment counterparties are primarily major institutions, Treasury, and the Federal Reserve Bank of New York. As of December 31, 2013 and 2012, including amounts related to our consolidated VIEs, there were $85.9 billion and $60.7 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; (b) Treasury securities classified as cash equivalents; or (c) cash deposited with the Federal Reserve Bank of New York. As of December 31, 2013 these included:

- $50.3 billion of securities purchased under agreements to resell with 11 counterparties that had short-term S&P ratings of A-1 or above;
- $6.1 billion of securities purchased under agreements to resell with one counterparty that had a short-term S&P rating of A-2;
- $6.0 billion of securities purchased under agreements to resell with one counterparty that does not have a short-term S&P or other third-party credit rating, but was evaluated under the company's counterparty credit risk system and was determined to be eligible for this transaction (by providing more than 100% in approved

collateral);

- $3.9 billion of cash equivalents invested in Treasury securities; and
- $19.4 billion of cash deposited with the Federal Reserve Bank of New York (as a non-interest-bearing deposit).

In February 2014, we reached a settlement with Lehman Brothers Holdings Inc. pursuant to which we will receive $767 million to resolve our claims related to Lehman’s bankruptcy. Consequently, we adjusted our December 31, 2013 estimate of the expected recoveries of our receivable by $350 million, which reduced other expenses by the same amount. For more information, see “NOTE 17: LEGAL CONTINGENCIES."

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Non-Agency Mortgage-Related Security Issuers

We are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities, including the activities discussed below. The effectiveness of these various loss mitigation efforts is uncertain, in part because our rights as an investor are limited, and any potential recoveries may take significant time to realize.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against 18 corporate families of financial institutions and related defendants seeking to recover losses and damages sustained by Freddie Mac and Fannie Mae as a result of their investments in certain residential non-agency mortgage-related securities issued or sold by, or backed by mortgages originated by, these financial institutions or control persons thereof. These institutions include some of our largest seller/servicers and counterparties, including counterparties to debt funding and derivatives transactions. We and FHFA reached settlements with the following parties in 2013:

- General Electric Company and affiliates (January 2013)
- Citigroup Inc. and affiliates (May 2013)
- UBS Americas, Inc. (July 2013)
- JPMorgan Chase & Co. and certain affiliated entities and other persons (October 2013)
- Ally Financial Inc. (October 2013)
- Deutsche Bank AG (December 2013)

Lawsuits against a number of other parties are currently pending.

In addition, during September 2013, we reached a settlement with Wells Fargo Bank, N.A. and affiliates concerning claims related to certain residential non-agency mortgage-related securities.

During 2013, we recognized $5.5 billion within non-interest income on our consolidated statements of comprehensive income associated with these settlements. In February 2014, we and FHFA entered into an agreement with Morgan Stanley, and related parties, to settle litigation related to certain residential non-agency mortgage-related securities we hold. Under the agreement, we will be paid $625 million, which will be reflected in our consolidated financial results for the first quarter of 2014.

In June 2011, Bank of America Corporation, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve certain claims with respect to a number of Countrywide first-lien and second-lien residential mortgage-related securitization trusts. We have investments in certain of these Countrywide securitization trusts and would expect to benefit from this settlement, if final court approval is obtained. Bank of America indicated that the settlement would be subject to final court approval and certain other conditions. In January 2014, a New York state court approved a significant portion of the settlement. There can be no assurance that final court approval of the entire settlement will be obtained or that all conditions will be satisfied. Given the complexity of the settlement and the possibility that the January 2014 court decision will be appealed, it is not possible to predict the timing or ultimate outcome of the court approval process, which could take substantial additional time.

Derivative Portfolio

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and variation margin in connection with exchange-traded derivatives and cleared derivatives exposes us to institutional credit risk in the event that our clearing members or the clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives and cleared derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts and cleared derivatives are settled or collateralized daily via payments made through the clearinghouse. OTC derivatives, however, expose us to institutional credit risk to individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations.

For more information about our derivative counterparties as well as related master netting and collateral agreements, see “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES.”

NOTE 16: FAIR VALUE DISCLOSURES

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

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

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements based on observable inputs other than quoted prices in active markets for identical assets or liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents our assets and liabilities measured in our consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option, as of December 31, 2013 and 2012.

Table 16.1 — Assets and Liabilities Measured at Fair Value on a Recurring Basis

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	Fair Value at December 31, 2013				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Total
	(in millions)				
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$—	$ 38,720	$1,939	$—	$40,659
Fannie Mae	—	10,666	131	—	10,797
Ginnie Mae	—	155	12	—	167
CMBS	—	27,229	3,109	—	30,338
Subprime	—	—	27,499	—	27,499
Option ARM	—	—	6,574	—	6,574
Alt-A and other	—	—	8,706	—	8,706
Obligations of states and political subdivisions	—	—	3,495	—	3,495
Manufactured housing	—	—	684	—	684
Total available-for-sale securities, at fair value	—	76,770	52,149	—	128,919
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	9,006	343	—	9,349
Fannie Mae	—	6,959	221	—	7,180
Ginnie Mae	—	24	74	—	98
Other	—	133	8	—	141
Total mortgage-related securities	—	16,122	646	—	16,768
Non-mortgage-related securities:					
Treasury bills	2,254	—	—	—	2,254
Treasury notes	4,382	—	—	—	4,382
Total non-mortgage-related securities	6,636	—	—	—	6,636
Total trading securities, at fair value	6,636	16,122	646	—	23,404
Total investments in securities	6,636	92,892	52,795	—	152,323
Mortgage loans:					
Held-for-sale, at fair value	—	8,727	—	—	8,727
Derivative assets, net:					
Interest-rate swaps	—	10,009	10	—	10,019
Option-based derivatives	—	4,112	—	—	4,112
Other	—	99	1	—	100
Subtotal, before netting adjustments	—	14,220	11	—	14,231
Netting adjustments[1]	—	—	—	(13,168)	(13,168)
Total derivative assets, net	—	14,220	11	(13,168)	1,063
Other assets:					

Guarantee asset, at fair value	—	—	1,611	—	1,611
All other, at fair value	—	—	9	—	9
Total other assets	—	—	1,620	—	1,620
Total assets carried at fair value on a recurring basis	$6,636	$ 115,839	$54,426	$(13,168)	$163,733
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$—	$ 59	$—	$—	$59
Other debt, at fair value	—	1,155	1,528	—	2,683
Derivative liabilities, net:					
Interest-rate swaps	—	13,022	295	—	13,317
Option-based derivatives	—	201	3	—	204
Other	—	68	38	—	106
Subtotal, before netting adjustments	—	13,291	336	—	13,627
Netting adjustments[1]	—	—	—	(13,447)	(13,447)
Total derivative liabilities, net	—	13,291	336	(13,447)	180
Total liabilities carried at fair value on a recurring basis	$—	$ 14,505	$1,864	$(13,447)	$2,922

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	Fair Value at December 31, 2012				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Total
	(in millions)				
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$—	$ 56,713	$1,802	$—	$58,515
Fannie Mae	—	15,117	163	—	15,280
Ginnie Mae	—	193	16	—	209
CMBS	—	47,878	3,429	—	51,307
Subprime	—	—	26,457	—	26,457
Option ARM	—	—	5,717	—	5,717
Alt-A and other	—	—	10,904	—	10,904
Obligations of states and political subdivisions	—	—	5,798	—	5,798
Manufactured housing	—	—	709	—	709
Total available-for-sale securities, at fair value	—	119,901	54,995	—	174,896
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	9,189	1,165	—	10,354
Fannie Mae	—	10,026	312	—	10,338
Ginnie Mae	—	39	92	—	131
Other	—	135	21	—	156
Total mortgage-related securities	—	19,389	1,590	—	20,979
Non-mortgage-related securities:					
Asset-backed securities	—	292	—	—	292
Treasury bills	1,160	—	—	—	1,160
Treasury notes	19,061	—	—	—	19,061
Total non-mortgage-related securities	20,221	292	—	—	20,513
Total trading securities, at fair value	20,221	19,681	1,590	—	41,492
Total investments in securities	20,221	139,582	56,585	—	216,388
Mortgage loans:					
Held-for-sale, at fair value	—	—	14,238	—	14,238
Derivative assets, net:					
Interest-rate swaps	27	13,920	18	—	13,965
Option-based derivatives	—	10,097	—	—	10,097
Other	37	92	2	—	131
Subtotal, before netting adjustments	64	24,109	20	—	24,193
Netting adjustments[1]	—	—	—	(23,536)	(23,536)

Total derivative assets, net	64	24,109	20	(23,536)	657
Other assets:					
Guarantee asset, at fair value	—	—	1,029	—	1,029
All other, at fair value	—	—	114	—	114
Total other assets	—	—	1,143	—	1,143
Total assets carried at fair value on a recurring basis	$20,285	$ 163,691	$71,986	$(23,536)	$232,426
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$—	$ 70	$—	$—	$70
Other debt, at fair value	—	—	2,187	—	2,187
Derivative liabilities, net:					
Interest-rate swaps	5	30,213	26	—	30,244
Option-based derivatives	—	749	1	—	750
Other	3	52	40	—	95
Subtotal, before netting adjustments	8	31,014	67	—	31,089
Netting adjustments[1]	—	—	—	(30,911)	(30,911)
Total derivative liabilities, net	8	31,014	67	(30,911)	178
Total liabilities carried at fair value on a recurring basis	$8	$ 31,084	$2,254	$(30,911)	$2,435

(1) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was $871 million and $8.2 billion, respectively, at December 31, 2013 and 2012. The net interest receivable (payable) of derivative assets and derivative liabilities was $(0.6) billion and $(0.8) billion at December 31, 2013 and 2012, respectively, which was mainly related to interest rate swaps.

Changes in Fair Value Levels

We monitor the availability of observable market data to: (a) assess the appropriate classification of financial instruments within the fair value hierarchy; and (b) transfer assets and liabilities between Level 1, Level 2, and Level 3 accordingly. Observable market data includes, but is not limited to, quoted prices and market transactions. Changes in economic conditions or the volume and level of activity in a market generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between Level 1, 2, or 3.

For the year ended December 31, 2013, our transfers between Level 1 and Level 2 assets and liabilities were $27 million and $5 million, respectively. For the year ended December 31, 2012, our transfers between Level 1 and Level 2 assets and liabilities were less than $1 million.

The table below presents a reconciliation of all assets and liabilities measured in our consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012, including transfers into and out of Level 3 assets and liabilities. The table also presents gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our consolidated statements of comprehensive income for Level 3 assets and liabilities for the years ended December 31, 2013 and 2012. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period.

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Table 16.2 — Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs

	Year Ended December 31, 2013											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2013	Included in earnings(1)(2)(3)(4)	Included in other comprehensive income(1)	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3(5)	Transfers out of Level 3(5)	Balance, December 31, 2013	Unrealized gains (losses) still held(6)
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$1,802	$2	$109	$111	$239	$—	$(86)	$(152)	$25	$—	$1,939	$—
Fannie Mae	163	—	(3)	(3)	—	—	—	(29)	—	—	131	—
Ginnie Mae	16	—	—	—	—	—	—	(4)	—	—	12	—
CMBS	3,429	6	(266)	(260)	—	—	(36)	(24)	—	—	3,109	—
Subprime	26,457	(1,260)	6,648	5,388	—	—	(403)	(3,943)	—	—	27,499	(1,258)
Option ARM	5,717	(61)	1,694	1,633	—	—	(75)	(701)	—	—	6,574	(58)
Alt-A and other	10,904	(128)	1,341	1,213	—	—	(2,001)	(1,410)	—	—	8,706	(179)
Obligations of states and political subdivisions	5,798	13	(188)	(175)	(10)	—	(533)	(1,585)	—	—	3,495	—
Manufactured housing	709	(1)	62	61	—	—	—	(86)	—	—	684	(1)
Total available-for-sale mortgage-related securities	54,995	(1,429)	9,397	7,968	229	—	(3,134)	(7,934)	25	—	52,149	(1,496)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	1,165	(50)	—	(50)	1,271	269	(1,476)	(64)	1	(773)	343	(53)
Fannie Mae	312	(42)	—	(42)	2	—	(2)	(25)	43	(67)	221	(42)
Ginnie Mae	92	(1)	—	(1)	3	—	—	(15)	—	(5)	74	(1)
Other	21	—	—	—	—	—	—	(3)	—	(10)	8	—
Total trading mortgage-related securities	1,590	(93)	—	(93)	1,276	269	(1,478)	(107)	44	(855)	646	(96)
Mortgage loans:												
Held-for-sale, at fair value	14,238	—	—	—	—	—	—	—	—	(14,238)	—	—

Other assets:												
Guarantee asset[7]	1,029	4	—	4	—	688	—	(110)	—	—	1,611	4
All other, at fair value	114	30	—	30	—	—	(135)	—	—	—	9	7
Total other assets	1,143	34	—	34	—	688	(135)	(110)	—	—	1,620	11

	Balance, January 1, 2013	Realized and unrealized (gains) losses: Included in earnings[(1)(2)(3)(4)]	Included in other comprehensive income[(1)]	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[(5)]	Transfers out of Level 3[(5)]	Balance, December 31, 2013	Unrealized (gains) losses still held[(6)]
	(in millions)											
Liabilities												
Other debt, at fair value	$2,187	$11	$—	$11	$—	$1,130	$—	$(670)	$—	$(1,130)	$1,528	$4
Net derivatives[(8)]	47	301	—	301	—	12	—	(35)	—	—	325	274

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	Year Ended December 31, 2012											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2012	Included in earnings[1][2][3][4]	Included in other comprehensive income[1]	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, December 31, 2012	Unrealized gains (losses) still held[6]
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$2,048	$—	$ 18	$18	$—	$—	$—	$ (144)	$—	$ (120)	$1,802	$ —
Fannie Mae	172	—	1	1	—	—	—	(31)	21	—	163	—
Ginnie Mae	12	—	—	—	—	—	—	(4)	8	—	16	—
CMBS	3,756	76	(38)	38	—	—	(331)	(34)	—	—	3,429	—
Subprime	27,999	(1,274)	4,301	3,027	—	—	—	(4,569)	—	—	26,457	(1,274)
Option ARM	5,865	(552)	1,417	865	—	—	(15)	(998)	—	—	5,717	(556)
Alt-A and other	10,868	(196)	1,822	1,626	—	—	—	(1,601)	11	—	10,904	(196)
Obligations of states and political subdivisions	7,824	19	108	127	—	—	(482)	(1,671)	—	—	5,798	—
Manufactured housing	766	(4)	47	43	—	—	—	(100)	—	—	709	(4)
Total available-for-sale mortgage-related securities	59,310	(1,931)	7,676	5,745	—	—	(828)	(9,152)	40	(120)	54,995	(2,030)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	1,866	(389)	—	(389)	25	95	(76)	(206)	92	(242)	1,165	(390)
Fannie Mae	538	(131)	—	(131)	(5)	—	5	(35)	—	(60)	312	(131)
Ginnie Mae	22	1	—	1	—	—	—	(16)	98	(13)	92	1
Other	90	—	—	—	—	18	(10)	(3)	—	(74)	21	(1)
Total trading mortgage-related securities	2,516	(519)	—	(519)	20	113	(81)	(260)	190	(389)	1,590	(521)
Mortgage loans:												
Held-for-sale, at fair value	9,710	1,011	—	1,011	25,340	—	(21,764)	(59)	—	—	14,238	263
Other assets:												
Guarantee asset[7]	752	(23)	—	(23)	—	382	—	(82)	—	—	1,029	(23)

All other, at fair value	151	(37)	—	(37)	—	—	—	—	—	—	114	(37)
Total other assets	903	(60)	—	(60)	—	382	—	(82)	—	—	1,143	(60)

	Balance, January 1, 2012	Realized and unrealized (gains) losses: Included in earnings[1][2][3][4]	Included in other comprehensive income[1]	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, December 31, 2012	Unrealized (gains) losses still held[6]
	(in millions)											
Liabilities												
Other debt, at fair value	$—	$(16)	$—	$(16)	$—	$—	$—	$(812)	$3,015	$—	$2,187	$(6)
Net derivatives[8]	(17)	30	—	30	—	3	—	(2)	—	33	47	15

(1) Changes in fair value for available-for-sale investment securities are recorded in AOCI, while gains and losses from sales are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income. For mortgage-related securities classified as trading, the realized and unrealized gains (losses) are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income.

(2) Changes in fair value of derivatives not designated as accounting hedges are recorded in derivative gains (losses) on our consolidated statements of comprehensive income.

(3) Changes in fair value of the guarantee asset are recorded in other income on our consolidated statements of comprehensive income.

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(4) For held-for-sale mortgage loans with the fair value option elected, gains (losses) on fair value changes and from sales of mortgage loans are recorded in other income on our consolidated statements of comprehensive income.

(5) Transfers out of Level 3 during the year ended December 31, 2013 are due to: (a) our enhancement to our pricing methodology for multifamily mortgage loans, held-for-sale, to more directly reflect the increasingly observable nature of our exit market of loan securitization; and (b) an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services for: (i) trading mortgage-related securities; and (ii) STACR debt notes included in other debt at fair value.

(6) 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 December 31, 2013 and 2012, respectively. Included in these amounts are credit-related other-than-temporary impairments recorded on available-for-sale securities.

(7) We estimate that all amounts recorded for unrealized gains and losses on our guarantee asset relate to those guarantee asset amounts still recorded on our balance sheet. The amounts reflected as included in earnings represent the periodic fair value changes of our guarantee asset.

(8) Net derivatives include derivative assets and derivative liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

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 application of lower-of-cost-or-fair-value accounting or write-downs of individual assets. These assets include impaired held-for-investment multifamily mortgage loans and REO, net.

The table below presents assets measured in our consolidated balance sheets at fair value on a non-recurring basis at December 31, 2013 and 2012, respectively.

Table 16.3 — Assets Measured at Fair Value on a Non-Recurring Basis

	Fair Value at December 31, 2013				2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)							
Assets measured at fair value on a non-recurring basis:								
Mortgage loans:[1]								
Held-for-investment	$—	$ —	$ 515	$515	$—	$ —	$ 1,025	$1,025
REO, net[2]	—	—	1,837	1,837	—	—	776	776
Total assets measured at fair value on a non-recurring basis	$—	$ —	$ 2,352	$2,352	$—	$ —	$ 1,801	$1,801

	Total Gains (Losses)[3]		
	Year Ended December 31,		
	2013	2012	2011

	(in millions)		
Assets measured at fair value on a non-recurring basis:			
Mortgage loans:[1]			
Held-for-investment	$22	$(49)	$(16)
REO, net[2]	(50)	(22)	(118)
Total gains (losses)	$(28)	$(71)	$(134)

(1) Represents carrying value and related write-downs of loans for which adjustments are based on the fair value amounts. These loans consist of impaired multifamily mortgage loans that are classified as held-for-investment and have a related valuation allowance.

(2) Represents the fair value and related losses of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was written down to fair value of $1.8 billion, less estimated costs to sell of $118 million (or approximately $1.7 billion) at December 31, 2013. The carrying amount of REO, net was written down to fair value of $0.8 billion , less estimated costs to sell of $50 million (or approximately $0.7 billion) at December 31, 2012.

(3) Represents the total net gains (losses) recorded on items measured at fair value on a non-recurring basis for the years ended December 31, 2013, 2012, and 2011, respectively.

Valuation Processes and Controls Over Fair Value Measurement

We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are

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reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

Groups within our Finance division, independent of our business functions, execute and validate the valuation processes and are responsible for determining the fair values of the majority of our financial assets and liabilities. In determining fair value, we consider the credit risk of our counterparties in estimating the fair values of our assets and our own credit risk in estimating the fair values of our liabilities. The fair values determined by our Finance division are further verified by an independent group within our Enterprise Risk Management (ERM) division.

The validation procedures performed by ERM are intended to ensure that the prices we receive from third parties are consistent with our observations of market activity, and that fair value measurements developed using internal data reflect the assumptions that a market participant would use in pricing our assets and liabilities. These validation procedures include performing a monthly independent verification of fair value measurements through independent modeling, analytics, and comparisons to other market source data, if available. Where applicable, prices are back-tested by comparing actual settlement prices to our fair value measurements. Analytical procedures include automated checks consisting of prior-period variance analysis, comparisons of actual prices to internally calculated expected prices based on observable market changes, analysis of changes in pricing ranges, relative value comparisons, and comparisons using modeled yields. Thresholds are set for each product category by ERM to identify exceptions that require further analysis. If a price is outside of our established thresholds, we perform additional validation procedures, including supplemental analytics and/or follow up discussions with the third-party provider. If we are unable to validate the reasonableness of a given price, we ultimately do not use that price for fair value measurements in our consolidated financial statements. These reviews are risk-based, cover all product categories, and are executed before we finalize the prices used in preparing our fair value measurements for our financial statements.

In addition to performing the validation procedures noted above, ERM provides independent risk governance over all valuation processes by establishing and maintaining a corporate-wide valuation control policy. ERM also independently reviews key judgments, methodologies, and valuation techniques to ensure compliance with established policies.

Our Valuation & Finance Model Committee ("Valuation Committee"), which includes representation from our business areas, ERM, and Finance divisions, provides senior management's governance over valuation processes, methodologies, controls and fair value measurements. Identified exceptions are reviewed and resolved through the verification process and the fair value measurements used in the financial statements are approved at the Valuation Committee.

Where models are employed to assist in the measurement and verification of fair values, changes made to those models during the period are reviewed and approved according to the corporate model change governance process, with all material changes reviewed at the Valuation Committee. Inputs used by models are regularly updated for changes in the underlying data, assumptions, valuation inputs, and market conditions, and are subject to the valuation controls noted above.

Use of Third-Party Pricing Data in Fair Value Measurement

As discussed in the sections that follow, many of our valuation techniques use, either directly or indirectly, data provided by third-party pricing services or dealers. The techniques used by these pricing services and dealers to develop the prices generally are either: (a) a comparison to transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; or (b) industry-standard modeling, such as a discounted cash flow model. The prices provided by the pricing services and dealers reflect their observations and assumptions related to market activity, including risk premiums and liquidity adjustments. The models and related assumptions used by the pricing services and dealers are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we have an understanding of the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes discussions with our vendors at least annually and often more frequently. We believe that the procedures executed by the pricing services and dealers, combined with our internal verification and analytical procedures, provide assurance that the prices used in our financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use in pricing our assets and liabilities. The price quotes we receive are non-binding both to us and to our counterparties. In many cases, we receive prices from third-party pricing services or dealers and use those prices without adjustment, and the significant inputs used to develop the prices are not reasonably available to us. For a large majority of the assets and liabilities we value using pricing services and dealers, we obtain prices from multiple external sources and use the median of the prices to measure fair value. This technique is referred to below as “median of external sources.” The significant inputs used in the fair value measurement of assets and liabilities that are valued using the median of external sources pricing technique are the third-party prices. Significant increases (decreases) in any of the third-party prices in isolation may result in a significantly higher (lower) fair value measurement. In limited circumstances, we may be able to receive pricing information from only a single external source. This technique is referred to below as “single external source.”

In limited circumstances, we receive prices or pricing-related data that we adjust or use as an input to our models or other valuation techniques to measure fair value, as described in “Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value — Derivative Assets, Net and Derivative Liabilities, Net.” In other limited

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circumstances, we receive prices from a third-party provider and use those prices without adjustment, but the inputs used by the third-party provider to develop the prices are reasonably available to us, as described in "Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value — Mortgage Loans, Held-for-Sale" and " — Other Assets and Other Liabilities."

Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value

We categorize assets and liabilities that we measure and report in our consolidated balance sheets at fair value within the fair value hierarchy based on the valuation techniques used to derive the fair value and our judgment regarding the observability of the related inputs. The following is a description of the valuation techniques we use for fair value measurement and disclosure; the significant inputs used in those techniques (if applicable); our basis for classifying the measurements as Level 1, Level 2, or Level 3 of the fair value hierarchy; and, for those measurements classified as Level 3 of the hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of any interrelationships between those unobservable inputs. Although the sensitivities of the unobservable inputs are generally discussed below in isolation, interrelationships exist among the inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs. For example, the most common interrelationship that impacts the majority of our fair value measurements is between future interest rates, prepayment speeds, and probabilities of default. Generally, a change in the assumption used for future interest rates results in a directionally opposite change in the assumption used for prepayment speeds and a directionally similar change in the assumption used for probabilities of default.

Each technique discussed below may not be used in a given reporting period, depending on the composition of our assets and liabilities measured at fair value and relevant market activity during that period.

Investments in Securities

Mortgage-Related Securities

Agency Securities

Agency securities, both trading and available-for-sale, consist of mortgage-related securities issued and guaranteed by Freddie Mac, Fannie Mae, and Ginnie Mae. The valuation techniques for agency securities vary depending on the type of security.

Fixed-rate single-class securities are valued using observable prices for similar securities in the TBA market. The observable TBA prices vary based on agency, term, coupon, and settlement date. In addition, we may adjust the TBA price accordingly based on matrices we receive from external dealers for securities with specific collateral characteristics if we observe those collateral characteristics to be trading at a premium or discount to the TBA price. Significant inputs used in this technique are the TBA prices and the security characteristics mentioned above. These securities have observable market pricing and are classified as Level 2.

Adjustable-rate single-class securities and the majority of multiclass securities are valued using the median of external sources. For certain multiclass securities, we are able to receive prices from only a single external source. Adjustable-rate single-class securities and the multiclass securities valued using these techniques generally have observable market prices and are classified as Level 2. However, certain multiclass securities valued using these techniques are classified as Level 3 when there is a low volume or level of activity in the market for those securities.

Certain multiclass securities for which we are not able to obtain external prices due to limited relevant market activity are valued using a discounted cash flow technique. Under this technique, securities are valued by starting with a third-party market price for a similar security within our portfolio. We then use our proprietary prepayment and interest rate models to calculate an OAS for the similar security, which is used to determine the net present value of the projected cash flows for the security to be valued. The significant unobservable input used in the fair value measurement of these securities is the OAS. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement. These securities are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Certain complex multiclass securities for which current cash flow information is not readily available are valued using a risk-metric pricing technique. Under this technique, securities are valued by starting with a prior period price and adjusting that price for market changes in certain key risk metrics such as key rate durations. If necessary, our judgment is applied to adjust the price based on specific security characteristics. The significant unobservable inputs used in the fair value measurement of these securities are the key risk metrics. Significant increases (decreases) in key rate durations in isolation would result in a significantly lower (higher) fair value measurement. These securities are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Commercial Mortgage-Backed Securities

The majority of our CMBS are valued using the median of external sources. For a small number of CMBS, we are able to receive prices from only a single external source. CMBS valued using these techniques generally have observable market pricing and are classified as Level 2. However, certain CMBS valued using these techniques are classified as Level 3 when there is a low volume or level of activity in the market for those securities.

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Subprime, Option ARM, and Alt-A and Other (Mortgage-Related); Obligations of States and Political Subdivisions; and Manufactured Housing

Subprime, option ARM, and Alt-A and other securities consist of non-agency mortgage-related securities backed by subprime, option ARM, and/or Alt-A and other collateral. Obligations of states and political subdivisions consist primarily of housing revenue bonds. Manufactured housing securities consist of non-agency mortgage-related securities backed by loans on manufactured housing properties. These types of securities are all valued based on the median of external sources and are classified as Level 3 due to the low volume and level of activity in the markets for these securities.

Non-Mortgage-Related Securities

Asset-Backed Securities

Asset-backed securities consist primarily of private-label non-mortgage-related securities. These securities are valued using the median of external sources. These securities have observable market pricing and are classified as Level 2.

Treasury Bills and Treasury Notes

Treasury bills and Treasury notes are valued using quoted prices in active markets for identical assets and are classified as Level 1.

Mortgage Loans, Held-for-Sale

Mortgage loans, held-for-sale consist of multifamily mortgage loans with the fair value option elected and are measured at fair value on a recurring basis. Mortgage loans, held-for-sale are primarily valued using market prices from a third-party pricing service that uses a discounted cash flow technique calibrated to the exit price for these loans as reflected in the K Certificate securitization market. Under this technique, the pricing service forecasts cash flows for the various mortgage loans and discounts them at a market rate, including a spread that is based on our recent securitization activity, which we have defined as our principal exit market. These loans are classified as Level 2 given the observable nature of our securitization pricing.

Mortgage Loans, Held-for-Investment

Mortgage loans, held-for-investment are measured at fair value on a non-recurring basis and represent multifamily mortgage loans that have been written down to the fair value of the underlying collateral due to impairment. The underlying collateral is primarily valued using either an income capitalization technique or third-party appraisals. Under the income capitalization technique, the collateral is valued by discounting the present value of future cash flows by applying an overall capitalization rate to the forecasted net operating income. The significant unobservable input used in the fair value measurement of these loans is the capitalization rate, which is determined through analysis of the DSCR. Significant increases (decreases) in the capitalization rate in isolation would result in a significantly lower (higher) fair value measurement.

Under the third-party appraisal technique, we use the prices provided by third-party appraisers without adjustment. The third-party appraisers consider the physical condition of the property and use comparable sales and other market data in determining the appraised value.

Impaired multifamily mortgage loans held-for-investment are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Derivative Assets, Net and Derivative Liabilities, Net

Derivative assets and derivative liabilities consist of interest-rate swaps, option-based derivatives, and other derivatives, such as exchange-traded futures, foreign-currency swaps, and certain forward purchase and sale commitments.

Interest-Rate Swaps

Interest-rate swaps consist of receive-fixed, pay-fixed, and basis swaps. The majority of our interest-rate swaps are valued using a discounted cash flow technique. Under this technique, interest-rate swaps are valued by using the appropriate yield curves to discount the expected cash flows of both the fixed and variable rate components of the swap contracts. The significant inputs used in the fair value measurement of these derivatives are market-based interest rates. These derivatives are classified as Level 2 as the significant inputs used in the fair value measurement are observable in active markets.

Option-Based Derivatives

Option-based derivatives consist of interest rate caps, interest rate floors, call swaptions, and put swaptions. We value the majority of our option-based derivatives using option-pricing models. Dealer-supplied interest rate volatility matrices are a key input into these models. Within each matrix, prices are provided for a range of option terms, swap terms, and strikes. Our models then interpolate to determine the volatility for each instrument and use that volatility as an input to the option-pricing model. These derivatives are classified as Level 2 as the significant inputs used are observable in active markets.

Other Derivatives

Other derivatives consist of exchange-traded futures, foreign-currency swaps, and certain forward purchase and sale commitments.

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Exchange-traded futures are valued using quoted prices in active markets for identical assets or liabilities and are classified as Level 1.

Foreign-currency swaps are valued using a discounted cash flow technique. Under this technique, foreign-currency swaps are valued using yield curves derived from observable market data to calculate and discount the expected cash flows for the swap contracts. The significant inputs used in the fair value measurement of these derivatives are market-based interest rates and foreign currency exchange rates. These derivatives are classified as Level 2 as the significant inputs used in the fair value measurement are observable in active markets.

Certain purchase and sale commitments are also considered to be derivatives and are valued using the same techniques we use to value the underlying instruments we are committing to purchase or sell. These instruments generally have observable market pricing and are classified as Level 2. Valuation techniques for commitments to purchase or sell investment securities and to extinguish or issue debt securities of consolidated trusts are further discussed in “Investments in Securities.” Valuation techniques for commitments to purchase single-family mortgage loans are further discussed in “Valuation Techniques for Assets and Liabilities Not Measured in Our Consolidated Balance Sheets at Fair Value, but for Which the Fair Value is Disclosed — Mortgage Loans.”

Other Assets and Other Liabilities

Other assets consist of our guarantee asset related to guarantees issued to unconsolidated securitization trusts and mortgage servicing rights. Other liabilities, from time to time, consist of mortgage servicing rights.

Guarantee Asset

Our guarantee asset is primarily related to our multifamily guarantees. The multifamily guarantee asset is valued using a discounted cash flow technique. Under this technique, the present value of future cash flows related to our management and guarantee fee is discounted based on the current OAS-to-benchmark interest rates for new guarantees, which are driven by changes in our estimates of credit risk and changes in the credit profile of the multifamily guarantee portfolio. The significant unobservable input used in the fair value measurement of the guarantee asset is the OAS-to-benchmark rates. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement.

Our guarantee asset also consists of single family guarantees primarily related to long-term standby commitments, the vast majority of which is valued using the median of external sources. Under this technique, we obtain multiple price quotes from dealers, who provide estimates based on pricing for comparable benchmark securities with specific adjustments to reflect the unique characteristics of this asset class.

The guarantee asset is classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

All Other Assets and Liabilities

All other assets and, from time to time, other liabilities consist primarily of mortgage servicing rights. Mortgage servicing rights are valued using a discounted cash flow technique by a third-party vendor that specializes in valuing and brokering sales of mortgage servicing rights. Under this technique, the cash flows from the mortgage servicing rights are discounted based on estimated prepayment rates, estimated costs to service both performing and non-performing loans, and estimated servicing income per loan (including ancillary income). The significant unobservable inputs used in the fair value measurement of mortgage servicing rights are the estimates of prepayment rates, costs to service per loan, and servicing income per loan. Significant increases (decreases) in cost to service per loan, and prepayment rate in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in servicing income per loan in isolation would result in a significantly higher (lower) fair value measurement. Mortgage servicing rights are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

REO, Net

REO, net consists primarily of single-family REO. REO, net is initially measured at its fair value less costs to sell, and is subsequently measured at the lower of cost or fair value less costs to sell. REO, net is valued using an internal model. Under this technique, our internal model uses actual REO disposition prices for the prior three months, calibrated to the most recent month's disposition prices, to determine the average sales proceeds per property at the state level, expressed as a fixed percentage based on the ratio of the disposition price to the UPB of the associated loan. This fixed percentage is then applied to the UPB immediately prior to the acquisition to determine the fair value of the individual property. Certain adjustments, such as state-level adjustments, are made to the estimated fair value, as applicable. The significant unobservable input used in the fair value measurement of REO, net is the historical average sales proceeds per property by state. Significant increases (decreases) in the historical average sales proceeds per property by state in isolation would result in a significantly higher (lower) fair value measurement. REO, net is classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Debt Securities of Consolidated Trusts Held by Third Parties, at Fair Value

We elected the fair value option for certain debt securities of consolidated trusts held by third parties. These consist of certain multifamily K Certificates where we are in a first loss position and certain REMIC interest-only mortgage-related debt securities. These are valued using either the median of external sources or a single external source (which may be the counterparty to the transaction) and are classified as Level 2 due to market pricing that is observable. See “Fair Value Option — Debt Securities of Consolidated Trusts Held by Third Parties” for additional information.

Other Debt, at Fair Value

We elected the fair value option on: (a) STACR debt notes; (b) extendible variable-rate notes containing quarterly options for investors to extend the maturity of the notes; and (c) foreign-currency denominated debt instruments. Our STACR debt notes are valued using the median of external sources and are classified as Level 2 based on observable market prices. Extendible variable-rate notes and foreign-currency denominated debt are valued using either the median of external sources or a single external source (which may be the counterparty to the transaction) and are classified as Level 3 due to the low volume and level of activity in the market for these types of debt instruments. See “Fair Value Option — Other Debt” for additional information.

Quantitative Information about Level 3 Fair Value Measurements for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value

The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured in our consolidated balance sheets at fair value on a recurring basis using unobservable inputs (Level 3) as of December 31, 2013 and 2012.

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Table 16.4 — Quantitative Information about Recurring Level 3 Fair Value Measurements

	December 31, 2013					
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs[1]		
	(dollars in millions)			Type	Range	Weighted Average
Recurring fair value measurements						
Assets						
Investments in securities						
Available-for-sale, at fair value						
Mortgage-related securities						
Agency securities:						
Freddie Mac		$1,547	Risk metric	Effective duration[2]	2.25 - 5.17 years	2.44 years
		133	Single external source	External pricing source	$99.3 - $99.3	$99.3
		259	Other			
Total Freddie Mac	$40,659	1,939				
Fannie Mae		91	Single external source	External pricing source	$110.5 - $110.5	$110.5
		26	Median of external sources	External pricing sources	$104.1 - $105.3	$104.7
		14	Other			
Total Fannie Mae	10,797	131				
Ginnie Mae		6	Median of external sources			
		6	Discounted cash flows			
Total Ginnie Mae	167	12				
CMBS		2,942	Single external source	External pricing source	$90.9 - $90.9	$90.9
		167	Other			
Total CMBS	30,338	3,109				
Subprime, option ARM, and Alt-A:						
Subprime		25,367	Median of external sources	External pricing sources	$64.5 - $73.8	$68.7
		2,132	Other			
Total subprime	27,499	27,499				
Option ARM		4,995	Median of external sources	External pricing sources	$60.8- $67.0	$64.4
		705	Discounted cash flows	OAS	461 - 944 bps	729 bps
		874	Other			
Total option ARM	6,574	6,574				

Alt-A and other		4,028	Single external source	External pricing source	$83.4 - $83.4	$ 83.4
		3,503	Median of external sources	External pricing sources	$72.5 - $79.1	$ 75.7
		1,175	Other			
Total Alt-A and other	8,706	8,706				
Obligations of states and political subdivisions		3,067	Median of external sources	External pricing sources	$98.7 - $99.7	$ 99.2
		428	Other			
Total obligations of states and political subdivisions	3,495	3,495				
Manufactured housing		577	Median of external sources	External pricing sources	$86.7 - $92.8	$ 89.7
		107	Other			
Total manufactured housing	684	684				
Total available-for-sale mortgage-related securities	128,919	52,149				
Trading, at fair value						
Mortgage-related securities						
Agency securities:						
Freddie Mac		297	Discounted cash flows	OAS	(5) - 9,441 bps	364 bps
		46	Other			
Total Freddie Mac	9,349	343				
Fannie Mae		191	Discounted cash flows	OAS	(2,257) - 2,295 bps	199 bps
		30	Other			
Total Fannie Mae	7,180	221				
Ginnie Mae		74	Median of external sources			
Total Ginnie Mae	98	74				
Other		7	Single external source			
		1	Other			
Total other	141	8				
Total trading mortgage-related securities	16,768	646				
Total investments in securities	$ 145,687	$ 52,795				
Other assets:						
Guarantee asset, at fair value		1,163	Discounted cash flows	OAS	16 - 202 bps	53 bps
		448	Median of external sources	External pricing sources	$11.6 - $25.4	$ 19.2
Total guarantee asset, at fair value	1,611	1,611				
All other, at fair value		9	Other			
Total all other, at fair value	9	9				
Total other assets	1,620	1,620				
Liabilities						
Other debt, at fair value		1,000		External pricing source		$ 100.0

			Single external source		\$100.0 - \$100.0	
		528	Median of external sources	External pricing sources	\$100.0 - \$100.1	100.0
Total other debt recorded at fair value	2,683	1,528				
Net derivatives		283	Single external source	External pricing source	\$0.8 - \$0.8	\$0.8
		37	Discounted cash flows			
		5	Other			
Total net derivatives	(883)	325				

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	December 31, 2012					
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs[1] Type	Range	Weighted Average
	(dollars in millions)					
Recurring fair value measurements						
Assets						
Investments in securities						
Available-for-sale, at fair value						
Mortgage-related securities						
Agency securities:						
Freddie Mac		$1,477	Risk metric	Effective duration[2]	0.89 -1.98 years	0.89 years
		325	Other			
Total Freddie Mac	$58,515	1,802				
Fannie Mae		78	Median of external sources	External pricing sources	$103.9 - $106.0	$105.2
		65	Single external source	External pricing source	$116.0 - $116.0	$116.0
		20	Other			
Total Fannie Mae	15,280	163				
Ginnie Mae		8	Discounted cash flows			
		8	Median of external sources			
Total Ginnie Mae	209	16				
CMBS		2,462	Single external source	External pricing source	$99.4 - $99.4	$99.4
		432	Risk metric	Effective duration[2]	9.3 -14.8 years	12.0 years
		535	Other			
Total CMBS	51,307	3,429				
Subprime, option ARM, and Alt-A:						
Subprime		24,890	Median of external sources	External pricing sources	$54.4 - $64.4	$59.2
		1,567	Other			
Total subprime	26,457	26,457				
Option ARM		5,631	Median of external sources	External pricing sources	$43.8 - $52.6	$47.9
		86	Other			
Total option ARM	5,717	5,717				
Alt-A and other		8,562	Median of external sources	External pricing sources	$69.6 - $77.9	$73.8
		1,901	Single external source	External pricing source	$71.8 - $71.8	$71.8
		441	Other			
Total Alt-A and other	10,904	10,904				
Obligations of states and political subdivisions		5,533	Median of external sources	External pricing sources	$102.3 - $103.2	$102.7
		265	Other			

Total obligations of states and political subdivisions	5,798	5,798					
Manufactured housing		693	Median of external sources	External pricing sources	$80.0 - $85.5	$82.8	
		16	Other				
Total manufactured housing	709	709					
Total available-for-sale mortgage-related securities	174,896	54,995					
Trading, at fair value							
Mortgage-related securities							
Agency securities:							
Freddie Mac		1,112	Discounted cash flows	OAS	(33,702) - 3,251 bps	502 bps	
		53	Other				
Total Freddie Mac	10,354	1,165					
Fannie Mae		312	Discounted cash flows	OAS	(1,263) - 3,251 bps	810 bps	
Total Fannie Mae	10,338	312					
Ginnie Mae		87	Median of external sources				
		5	Other				
Total Ginnie Mae	131	92					
Other		12	Discounted cash flows				
		9	Median of external sources				
Total other	156	21					
Total trading mortgage-related securities	20,979	1,590					
Total investments in securities	$195,875	$56,585					
Mortgage loans:							
Held-for-sale, at fair value	$14,238	$14,238	Discounted cash flows	DSCR	1.25 - 6.88	1.97	
				Current LTV	19% - 80%	69	%
Other assets:							
Guarantee asset, at fair value		870	Discounted cash flows	OAS	0 - 368 bps	55 bps	
		159	Other				
Total guarantee asset, at fair value	1,029	1,029					
All other, at fair value		112	Discounted cash flows	Prepayment rate	7.73% -39.87%	21.23	%
				Servicing income per loan	0.19% - 0.52%	0.25	%
				Cost to service per loan	$78 - $354	$141	

		2	Other			
Total all other, at fair value	114	114				
Total other assets	1,143	1,143				
Liabilities						
Other debt, at fair value		1,188	Median of external sources	External pricing sources	$101.7 - $102.0	$101.7
		999	Single external source	External pricing source	$99.9 - $99.9	$99.9
Total other debt recorded at fair value	2,187	2,187				
Net derivatives	(479)	47	Other			

(1) Certain unobservable input types, range, and weighted average data are not disclosed in this table if they are associated with a class: (a) that has a Level 3 fair value measurement that is not considered material; or (b) where we have disclosed the predominant valuation technique with related unobservable inputs for the most significant portion of that class.

(2) Effective duration is used as a proxy to represent the aggregate impact of key rate durations.

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The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured in our consolidated balance sheets at fair value on a non-recurring basis using unobservable inputs (Level 3) as of December 31, 2013 and 2012.

Table 16.5 — Quantitative Information about Non-Recurring Level 3 Fair Value Measurements

	December 31, 2013					
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs[1] Type	Range	Weighted Average
	(dollars in millions)					
Non-recurring fair value measurements						
Mortgage loans						
Held-for-investment		$298	Income capitalization	Capitalization rates[2]	6% - 9%	7%
		217	Third-party appraisal	Property value	$4 million - $44 million	$27 million
Total held-for-investment	$515	515				
REO, net		1,837	Internal model[3]	Historical average sales proceeds per property by state[4]	$17,500 - $318,391	$105,508
Total REO, net	1,837	1,837				

	December 31, 2012					
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs[1] Type	Range	Weighted Average
	(dollars in millions)					
Non-recurring fair value measurements						
Mortgage loans						
Held-for-investment		$711	Income capitalization	Capitalization rates[2]	5% - 9%	7%
		314	Third-party appraisal	Property value	$2 million - $43 million	$21 million
Total held-for-investment	$1,025	1,025				
REO, net		771	Internal model[3]	Historical average sales proceeds per property by state[4]	$32,186 - $356,397	$102,697
		5	Other			
Total REO, net	776	776				

(1)

Certain unobservable input types, range, and weighted average data are not disclosed in this table if they are associated with a class: (a) that has a Level 3 fair value measurement that is not considered material; or (b) where we have disclosed the predominant valuation technique with related unobservable inputs for the most significant portion of that class.

(2) The capitalization rate “Range” and “Weighted Average” represent those loans that are valued using the Income Capitalization approach, which is the predominant valuation technique used for this population. Certain loans in this population are valued using other techniques, and the capitalization rate for those is not represented in the “Range” or “Weighted Average” above.

(3) Represents an internal model that uses actual REO disposition prices for the prior three months, calibrated to the most recent month's disposition prices, to determine the average sales proceeds per property at the state level, expressed as a fixed percentage based on the ratio of the disposition price to the UPB of the associated loan. This valuation technique is used to measure both the initial value of REO and the subsequent write-down to current fair value.

(4) Represents the average of three months of REO sales proceeds by state. The national average REO disposition severity ratio for our REO properties was 35.8% and 39.5% for the years ended December 31, 2013 and 2012, respectively.

Fair Value of Financial Instruments

The table below presents the carrying value and estimated fair value of our financial instruments as of December 31, 2013 and 2012.

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Table 16.6 — Fair Value of Financial Instruments

	December 31, 2013					
		Fair Value				
	Carrying Amount(1) (in millions)	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	$11,281	$7,360	$3,921	$—	$ —	$11,281
Restricted cash and cash equivalents	12,265	12,264	1	—	—	12,265
Federal funds sold and securities purchased under agreements to resell	62,383	—	62,383	—	—	62,383
Investments in securities:						
Available-for-sale, at fair value	128,919	—	76,770	52,149	—	128,919
Trading, at fair value	23,404	6,636	16,122	646	—	23,404
Total investments in securities	152,323	6,636	92,892	52,795	—	152,323
Mortgage loans:						
Mortgage loans held by consolidated trusts	1,529,905	—	1,258,049	249,693	—	1,507,742
Unsecuritized mortgage loans	154,885	—	16,145	122,065	—	138,210
Total mortgage loans(2)	1,684,790	—	1,274,194	371,758	—	1,645,952
Derivative assets, net	1,063	—	14,220	11	(13,168)	1,063
Guarantee asset	1,611	—	—	1,879	—	1,879
Total financial assets	$1,925,716	$26,260	$1,447,611	$426,443	$ (13,168)	$1,887,146
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	$1,433,984	$—	$1,435,894	$1,004	$ —	$1,436,898
Other debt	506,767	—	499,756	13,089	—	512,845
Total debt, net	1,940,751	—	1,935,650	14,093	—	1,949,743
Derivative liabilities, net	180	—	13,291	336	(13,447)	180
Guarantee obligation	1,522	—	—	3,067	—	3,067
Total financial liabilities	$1,942,453	$—	$1,948,941	$17,496	$ (13,447)	$1,952,990

	December 31, 2012					
		Fair Value				
	Carrying Amount(1) (in millions)	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	$8,513	$8,513	$—	$—	$ —	$8,513
	14,592	14,576	16	—	—	14,592

Restricted cash and cash equivalents						
Federal funds sold and securities purchased under agreements to resell	37,563	—	37,563	—	—	37,563
Investments in securities:						
Available-for-sale, at fair value	174,896	—	119,901	54,995	—	174,896
Trading, at fair value	41,492	20,221	19,681	1,590	—	41,492
Total investments in securities	216,388	20,221	139,582	56,585	—	216,388
Mortgage loans:						
Mortgage loans held by consolidated trusts	1,495,932	—	1,130,438	409,722	—	1,540,160
Unsecuritized mortgage loans	190,415	—	16,428	151,175	—	167,603
Total mortgage loans	1,686,347	—	1,146,866	560,897	—	1,707,763
Derivative assets, net	657	64	24,109	20	(23,536)	657
Guarantee asset	1,029	—	—	1,325	—	1,325
Total financial assets	$1,965,089	$43,374	$1,348,136	$618,827	$ (23,536)	$1,986,801
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	$1,419,524	$—	$1,484,228	$2,867	$ —	$1,487,095
Other debt	547,518	—	546,955	18,646	—	565,601
Total debt, net	1,967,042	—	2,031,183	21,513	—	2,052,696
Derivative liabilities, net	178	8	31,014	67	(30,911)	178
Guarantee obligation	1,004	—	—	2,487	—	2,487
Total financial liabilities	$1,968,224	$8	$2,062,197	$24,067	$ (30,911)	$2,055,361

(1) Equals the amount reported on our GAAP consolidated balance sheets.

(2) The fair value of single-family mortgage loans as of December 31, 2013 includes the effect of a change in estimate related to enhancements implemented to align our economic capital methodology with external capital benchmarks.

Valuation Techniques for Assets and Liabilities Not Measured in Our Consolidated Balance Sheets at Fair Value, but for Which the Fair Value is Disclosed

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The following is a description of the valuation techniques we use for items not measured in our consolidated balance sheets at fair value , but for which the fair value is disclosed, the significant inputs used in those techniques (if applicable), and our basis for classifying the measurements as Level 1, Level 2, or Level 3 of the valuation hierarchy. Each technique discussed below may not be used in a given reporting period, depending on the composition of our assets and liabilities measured at fair value and relevant market activity during that period.

Cash and Cash Equivalents (including Restricted Cash and Cash Equivalents)

Cash and cash equivalents (including restricted cash and cash equivalents) largely consist of highly liquid investment securities with an original maturity of three months or less used for cash management purposes, as well as cash held at financial institutions and cash collateral posted by our derivative counterparties. Given that these assets are short-term in nature with limited market value volatility, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Cash and restricted cash are classified as Level 1. Cash equivalents (including restricted cash equivalents) are primarily classified as Level 2 because we use observable inputs other than quoted prices in active markets for identical assets to determine the fair value measurement. However, cash equivalents (including restricted cash equivalents) for which we can obtain quoted prices in active markets for identical assets are classified as Level 1.

Federal Funds Sold and Securities Purchased Under Agreements to Resell

Federal funds sold and securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities and federal funds sold. Given that these assets are short-term in nature, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Federal funds sold and securities purchased under agreements to resell are classified as Level 2 because these assets have observable market pricing, but quoted prices for identical assets are not available.

Mortgage Loans

Single-family and certain multifamily mortgage loans are classified as held-for-investment and recorded at amortized cost. Other multifamily mortgage loans that are held for investment are recorded at the fair value of the underlying collateral upon impairment. Multifamily held-for-sale mortgage loans are recorded at fair value due to the election of the fair value option.

Single-Family Loans

Determination of Principal Market

In determining the fair value of single-family mortgage loans, valuation outcomes can vary widely based on management judgments and decisions used in determining: (a) the principal market; (b) modeling assumptions, including default, severity, home prices, and risk premiums; and (c) inputs used to determine variables including risk premiums, credit costs, security pricing, and implied management and guarantee fees. Our principal markets include the GSE securitization market and the whole loan market. To determine the principal market, we considered the market with the greatest volume and level of activity and our ability to access that market. In the absence of a market with active trading, we determined the market that would maximize the amount we would receive upon sale. We determined that the principal market is the whole loan market for loans that: (a) are four or more months delinquent; (b) are in foreclosure; (c) have completed a HAMP loan modification; (d) have completed a non-HAMP loan modification but have not been current for at least 12 consecutive months; or (e) have been modified through a process that included forbearance on a portion of the outstanding balance. The total UPB of loans where the whole loan market is the principal market was approximately \$101.2 billion and \$110.0 billion as of December 31, 2013 and 2012, respectively. We determined that the principal market for all other loans, regardless of whether the loan is currently securitized or whether the loan is eligible for purchase under current underwriting standards, is the GSE securitization market. The total UPB of loans where the GSE securitization market is the principal market was approximately \$1.5 trillion as of both December 31, 2013 and 2012.

Whole Loan Market as Principal Market

Loans where we determine that the principal market is the whole loan market are valued using the median of external sources. Under the median of external sources technique, prices for single-family loans are obtained from multiple dealers. These dealers reference market activity for deeply delinquent and modified loans, where available, and use internal models and their judgment to determine default rates, severity rates, home prices, and risk premiums. Single-family mortgage loans valued using this technique are classified as Level 3 due to the low volume and level of activity in this market.

GSE Securitization Market as Principal Market

Loans where we determine that the principal market is the GSE securitization market are valued using the build-up technique. Under the build-up technique, the fair value of single-family mortgage loans is based on the estimate of the price we would receive if we were to securitize the loans. These loans are valued by starting with benchmark security pricing for actively traded mortgage-related securities with similar characteristics; adding in the value of our management and guarantee fee, which is the compensation we receive for performing our management and guarantee activities; and subtracting the value of the credit obligation related to performing our guarantee.

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The security price is based on benchmark security pricing for similar actively traded mortgage-related securities, adjusted as necessary based on security characteristics. This security pricing process is consistent with our approach for valuing similar securities retained in our investment portfolio or issued as debt to third parties. See "Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value — Investments in Securities."

The management and guarantee fee is valued by estimating the present value of the additional cash flows related to our management and guarantee fee. The management and guarantee fees for the majority of our loans are valued using third-party dealer prices on hypothetical interest-only securities based on collateral characteristics from our single-family credit guarantee portfolio. For loans where third-party market data is not readily available, we use a discounted cash flow approach, leveraging the dealer prices received for the majority of our loans and including only those cash flows related to our management and guarantee fee.

The credit obligation related to performing our guarantee is valued by estimating the fair value of the related credit and other costs (such as general and administrative expenses) and benefits (such as credit enhancements) inherent in our guarantee obligation. For loans that qualify for purchase under current underwriting standards, we use the delivery and guarantee fees that we charge under our current market pricing as a market observation. For loans that do not qualify for purchase based on current underwriting standards, we use our internal credit models, which incorporate factors such as loan characteristics, loan performance status information, expected losses, and risk premiums.

Single-family mortgage loans that qualify for purchase under current underwriting standards are classified as Level 2 as the significant inputs used for the valuation of these loans, such as security pricing, our externally published credit pricing matrices, and third-party prices used in valuing the management and guarantee fee, are observable, while the unobservable inputs, such as general and administrative expenses and credit enhancements, are not significant to the fair value measurement. Single-family mortgage loans that do not qualify for purchase under current underwriting standards are classified as Level 3 as the credit cost is based on our internal credit models which use unobservable inputs that are significant to the fair value measurement.

HARP Loans

For loans that have been refinanced under HARP, we value our guarantee obligation using the delivery and guarantee fees currently charged by us under that initiative. HARP loans valued using this technique are classified as Level 2, as the fees charged by us are observable. If, subsequent to delivery, the refinanced loan no longer qualifies for purchase based on current underwriting standards (such as becoming past due or being modified), the fair value of the guarantee obligation is then measured using: (a) our internal credit models; or (b) the median of external sources, if the loan's principal market has changed to the whole loan market. HARP loans valued using either of these techniques are classified as Level 3 as significant inputs are unobservable. The majority of our HARP loans are classified as Level 2.

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends (currently scheduled for December 31, 2015), the beneficial pricing afforded to HARP loans will no longer be reflected in our delivery and guarantee fee pricing structure. If these benefits were not reflected in the pricing for these loans, the fair value of our mortgage loans would have decreased by $18.5 billion and $11.2 billion as of December 31, 2013 and 2012, respectively. The total fair value of the loans in our portfolio that reflects the pricing afforded to HARP loans as of December 31, 2013 and 2012 as presented in our consolidated fair value balance sheets is $145.0 billion and $153.1 billion, respectively.

Multifamily Loans

For a discussion of the techniques used to determine the fair value of held-for-sale and impaired held-for-investment multifamily mortgage loans, see "Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value — Mortgage Loans, Held-for-Sale" and "— Mortgage Loans, Held-for-Investment," respectively. Non-impaired multifamily mortgage loans are primarily valued using market prices from a third-party pricing service that uses a discounted cash-flow technique. Under this technique, the pricing service forecasts cash flows for the various mortgage loans and discounts them at a market rate, including a spread that is based on pricing data obtained from purchases and sales of similar mortgage loans, adjusted based on the mortgage's current LTV ratio and DSCR. The significant unobservable inputs used in the fair value measurement of these loans are the current LTV ratio and DSCR. These loans are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Total Debt, Net

Total debt, net represents debt securities of consolidated trusts held by third parties and other debt that we issued to finance our assets. On our consolidated GAAP balance sheets, total debt, net, excluding debt securities for which the fair value option has been elected, is reported at amortized cost, which is net of deferred items, including premiums, discounts, and hedging-related basis adjustments.

For debt securities of consolidated trusts, the valuation techniques we use are similar to the techniques we use to value our investments in agency securities for GAAP purposes. See "Valuation Techniques for Assets and Liabilities Measured in Our

Consolidated Balance Sheets at Fair Value — Investments in Securities — Mortgage-Related Securities — Agency Securities" for additional information regarding the valuation techniques we use.

Other debt includes short-term zero-coupon discount notes, callable debt, and non-callable debt. Short-term zero-coupon discount notes are valued using a yield analysis technique. Under this technique, the debt instruments are valued using published yield matrices which are based on the days to maturity of the debt and converted into a price. Significant inputs used in this technique are the published yield matrices. Short-term zero-coupon discount notes are classified as Level 2 as the significant inputs used are observable in active markets. Other debt securities, including both callable and non-callable debt, are valued using a single external source or median of external sources. These debt securities generally have observable market pricing and are classified as Level 2. However, certain other debt securities are classified as Level 3 when there is a low volume or level of activity in the market for those types of debt securities.

Total debt, net for which we have elected the fair value option includes certain debt securities of consolidated trusts held by third parties and certain other debt. We report these items at fair value on our GAAP consolidated balance sheets. See "Valuation Techniques for Assets and Liabilities Measured in Our Consolidated Balance Sheets at Fair Value — Debt Securities of Consolidated Trusts Held by Third Parties, at Fair Value" and "— Other Debt, at Fair Value" for additional information.

Guarantee Obligation

Our guarantee obligation is classified as Level 3 as significant inputs used in the fair value measurement are unobservable. The technique for estimating the fair value of our guarantee obligation is described in the "Mortgage Loans — Single-Family Loans" section above.

Fair Value Option

We elected the fair value option for certain types of investments in securities, multifamily held-for-sale mortgage loans, and certain debt.

Investments in Securities

We elected the fair value option for certain mortgage-related securities to better reflect the natural offset these securities provide to fair value changes recorded historically on our guarantee asset at the time of our election. In addition, upon adoption of the accounting guidance for the fair value option, we elected this option for securities within the scope of the accounting guidance for investments in beneficial interests in securitized financial assets to better reflect any valuation changes that would occur subsequent to impairment write-downs previously recorded on these instruments. Related interest income continues to be reported as interest income in our consolidated statements of comprehensive income. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Investments in Securities" for additional information about the measurement and recognition of interest income on investments in securities. For information regarding the net unrealized gains (losses) on trading securities, which include gains (losses) for other items that are not selected for the fair value option, see Gains (loss) on trading securities within "Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

Multifamily Held-For-Sale Mortgage Loans

We elected the fair value option for multifamily mortgage loans that were purchased for securitization. These multifamily mortgage loans are classified as held-for-sale mortgage loans in our consolidated balance sheets to reflect our intent to sell in the future. Related interest income continues to be reported as interest income in our consolidated statements of comprehensive income. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Mortgage Loans" for additional information about the measurement and recognition of interest income on our mortgage loans.

Debt Securities of Consolidated Trusts Held by Third Parties

We elected the fair value option for certain debt securities of consolidated trusts held by third parties. These consist of certain multifamily K Certificates where we are in a first loss position and certain REMIC interest-only mortgage-related debt securities. We elected the fair value option on these debt instruments as they contain embedded derivatives that require bifurcation. Fair value changes for debt securities of consolidated trusts held by third parties are recorded in other income in our consolidated statements of comprehensive income. Related interest expense continues to be reported as interest expense in our consolidated statements of comprehensive income. See "NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Debt Securities Issued" for additional information about the measurement and recognition of interest expense on debt securities issued.

Other Debt

We elected the fair value option on: (a) STACR debt notes; (b) extendible variable-rate notes containing quarterly options for investors to extend the maturity of the notes; and (c) foreign-currency denominated debt. We elected the fair value option for STACR debt notes and extendible variable-rate notes as they contain potential embedded derivatives requiring bifurcation. In the case of foreign-currency denominated debt, we entered into derivative transactions that effectively converted these instruments to U.S. dollar denominated floating rate instruments. We elected the fair value option on these debt instruments to better reflect the economic offset that naturally results from the debt due to changes in interest rates. Fair value changes for debt for which we have elected the fair value option are recorded in other income in our consolidated statements of comprehensive

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income. Related interest expense continues to be reported as interest expense in our consolidated statements of comprehensive income. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Debt Securities Issued" for additional information about the measurement and recognition of interest expense on debt securities issued.
The table below presents the fair value and UPB related to certain items for which we have elected the fair value option at December 31, 2013 and 2012.
Table 16.7 — Difference between Fair Value and Unpaid Principal Balance for Certain Financial Instruments with Fair Value Option Elected

	December 31, 2013		2012	
	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term
	(in millions)			
Fair value	$8,727	$2,683	$14,238	$2,187
Unpaid principal balance	8,721	2,635	13,972	2,167
Difference	$6	$48	$266	$20

Changes in Fair Value under the Fair Value Option Election
We recorded gains (losses) of $(0.3) billion, $1.0 billion and $0.8 billion for the years ended December 31, 2013, 2012, and 2011, respectively, from the change in fair value on multifamily held-for-sale mortgage loans recorded at fair value in other income in our consolidated statements of comprehensive income.
Gains (losses) on debt securities with the fair value option elected were $(37) million, $16 million, and $91 million for the years ended December 31, 2013, 2012, and 2011, respectively, and were recorded in other income in our consolidated statements of comprehensive income.
Changes in fair value attributable to instrument-specific credit risk were not material for the years ended December 31, 2013, 2012, or 2011 for any assets or liabilities for which we elected the fair value option.
NOTE 17: LEGAL CONTINGENCIES
We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell mortgages to, and/or service mortgages for, us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions with respect to mortgages 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.
During 2013, we paid approximately $10 million for the advancement of legal fees and expenses of former officers pursuant to our indemnification obligations to them. These fees and expenses related to certain of the matters described below, and are being partially offset by insurance payments. This figure does not include certain administrative support costs and certain costs related to document production and storage.
Putative Securities Class Action Lawsuits
Ohio Public Employees Retirement System ("OPERS") vs. Freddie Mac, Syron, et al. This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1,

2006 through November 20, 2007. FHFA later intervened as Conservator. The plaintiff alleges 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. The plaintiff amended its complaint on several occasions. Defendants filed motions to dismiss the second and third amended complaints, which the Court denied. On April 13, 2013, the judge who had presided over the case since 2008 recused himself, and the case was reassigned to a new judge. On August 23, 2013, the new judge granted defendants' motion to vacate the previous judge's orders denying defendants' motions to dismiss. Defendants filed new motions to dismiss the complaint on October 8, 2013.

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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; the fact that the Court has not yet ruled upon defendants' new motion to dismiss the complaint; and the fact that the Court has not yet ruled upon motions for class certification or summary judgment. In particular, absent the certification of a class, the identification of a class period, and the identification of the alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

Kuriakose vs. Freddie Mac, Syron, Piszel and Cook. Another putative class action lawsuit was filed against Freddie Mac and certain former officers on August 15, 2008 in the U.S. District Court for the Southern District of New York for alleged violations of federal securities laws. The case is purportedly brought on behalf of a class of purchasers of Freddie Mac stock from November 21, 2007 through September 7, 2008. FHFA later intervened as Conservator. The plaintiffs claimed that defendants made false and misleading statements about Freddie Mac’s business that artificially inflated the price of Freddie Mac’s common stock, and sought unspecified damages, costs, and attorneys’ fees. The plaintiffs twice amended their complaint, and sought leave to amend a third time. On September 24, 2012, the Court granted with prejudice defendants’ motions to dismiss plaintiffs’ second amended complaint in its entirety, denied plaintiffs’ motion to file a third amended complaint, and directed that the case be closed. Judgment was entered in favor of the defendants on September 27, 2012. On October 26, 2012, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit. By order dated November 5, 2013, the U.S. Court of Appeals for the Second Circuit affirmed the District Court's decisions granting defendants' motions to dismiss and denying plaintiffs' motion to file a third amended complaint. On November 19, 2013, plaintiffs filed a petition for panel rehearing, which was denied.

At present, it is not possible for us to predict the probable outcome of this lawsuit or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matter due to the following factors, among others: the inherent uncertainty of the appellate process, including the outcome of any petition for certiorari; the inherent uncertainty of pre-trial litigation in the event the case is ultimately remanded to the District Court in whole or in part; and the fact that the parties have not briefed and the District Court has not yet ruled upon motions for class certification or summary judgment. In particular, absent resolution of the appellate process, the certification of a class, the identification of a class period, and the identification of the alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

Related Third Party Litigation and Indemnification Requests

On December 16, 2011, the SEC announced that it had charged three former executives of Freddie Mac with securities laws violations. These executives are former Chairman of the Board and Chief Executive Officer Richard F. Syron, former Executive Vice President and Chief Business Officer Patricia L. Cook, and former Executive Vice President for the single-family guarantee business Donald J. Bisenius.

On September 23, 2008, a plaintiff filed a putative class action securities lawsuit in the U.S. District Court for the Southern District of New York styled Mark vs. Goldman, Sachs & Co., J.P. Morgan Chase & Co., and Citigroup Global Markets Inc. On January 29, 2009, another plaintiff filed a putative class action lawsuit in the same Court styled Kreysar vs. Syron, et al. The cases, which were subsequently consolidated by the Court, concern the company’s November 29, 2007 public offering of $6 billion of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock.

In the consolidated complaint, plaintiffs alleged that three former Freddie Mac officers (including Syron and former Executive Vice President and Chief Financial Officer Anthony S. Piszel), certain underwriters and Freddie Mac’s auditor violated federal securities laws by making material false and misleading statements in connection with the company’s November 2007 public offering. The complaint further alleged that certain defendants and others made additional false statements following the offering. After a series of motions and amendments to the complaint, only Syron and Piszel remain as defendants.

The plaintiffs moved for class certification, which motion was ultimately denied by the Court. On May 31, 2012, the U.S. Court of Appeals for the Second Circuit denied plaintiffs' motion for leave to appeal on an interlocutory basis the denial of class certification. In August 2012, plaintiffs sought leave to file another motion for class certification, which request the Court denied on September 25, 2012.

Freddie Mac is not named as a defendant in the consolidated lawsuit, but the underwriters previously gave notice to Freddie Mac of their intention to seek full indemnity and contribution under the underwriting agreement in this case, including reimbursement of fees and disbursements of their legal counsel. At present, it is not possible for us to predict the probable outcome of the 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 inherent uncertainty of litigation and the fact that plaintiffs may appeal the denial of class certification. Absent the certification of a specified class, the identification of a class period, and the identification of the

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alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

Two other lawsuits have been filed against certain underwriters of the company's November 2007 public offering. Plaintiffs in the cases generally allege that the underwriters made materially misleading statements and omissions in connection with the offering. Freddie Mac is not named as a defendant in either lawsuit. On July 6, 2011, a lawsuit styled Liberty Mutual Insurance Company, Peerless Insurance Company, Employers Insurance Company of Wausau, Safeco Corporation and Liberty Life Assurance Company of Boston vs. Goldman, Sachs & Co. was filed in the U.S. District Court for Massachusetts. In a second lawsuit, Western and Southern Life Insurance Company and others asserted claims against GS Mortgage Securities Corp., Goldman Sachs Mortgage Company and Goldman Sachs & Co. in the Court of Common Pleas, Hamilton County, Ohio.

Lehman Bankruptcy

On September 15, 2008, Lehman Brothers Holdings Inc. ("Lehman") filed a chapter 11 bankruptcy petition in the U.S. Bankruptcy Court for the Southern District of New York. Thereafter, many of Lehman's U.S. subsidiaries and affiliates also filed bankruptcy petitions (collectively, the "Lehman Entities"). Freddie Mac had numerous relationships with the Lehman Entities which gave rise to several claims. On September 22, 2009, Freddie Mac filed proofs of claim in the Lehman bankruptcies aggregating approximately $2.1 billion. On December 6, 2011, the Court confirmed Lehman's chapter 11 plan of liquidation (the "Liquidation Plan"), which provides for the liquidation of the bankruptcy estate's assets over the next three years. Our claims consist primarily of (a) a $1.2 billion claim (for which we asserted priority status) relating to losses incurred on short-term lending transactions with certain Lehman Entities; and (b) an $869 million unsecured claim relating to Lehman's repurchase obligations for breaches of representations and warranties on single-family loans sold to us. The Liquidation Plan addressed these claims as follows:

- Short-term lending claim: The Liquidation Plan treated this claim as a senior unsecured claim, pursuant to which we would have ultimately received an estimated distribution of approximately 21% (or approximately $250 million). However, the Liquidation Plan left open for subsequent determination whether our claim would be accorded priority status, and the Lehman estate set aside $1.2 billion to pay our claim in full if, after litigation or settlement, it was allowed as a priority claim. On September 13, 2013, Lehman filed a motion to have the Court classify and allow the claim as a senior unsecured claim. Freddie Mac opposed the motion and, as a result, the issue of the proper classification of the claim was in litigation between the parties.
- Repurchase claim: The Liquidation Plan did not adjudge or allow this claim, but instead permitted claims allowance proceedings to continue. To the extent the claim was allowed, it would have been treated as a general unsecured claim, for which Freddie Mac would ultimately have received a distribution of approximately 19.9% of the allowed amount.

On February 12, 2014, Freddie Mac and Lehman entered into a settlement agreement, under which Lehman would pay us a lump sum of $767 million to resolve our claims. On February 19, 2014, the settlement was approved by the Court.

Taylor, Bean & Whitaker and Ocala Funding, LLC Bankruptcies

On August 24, 2009, TBW, which had been one of our single-family seller/servicers, filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Florida. We entered into a settlement regarding the TBW bankruptcy in 2011. However, we continue to be involved in certain matters relating to the TBW bankruptcy, as described below.

On July 10, 2012, Ocala Funding, LLC, or Ocala, which is a wholly owned subsidiary of TBW, filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Florida. In connection with the bankruptcy filing, Ocala also filed a motion seeking an examination of and subsequent document discovery from Freddie Mac and FHFA, asserting that it has "viable, legitimate and valuable causes of action against Freddie Mac" to recover approximately $805 million of funds that were allegedly transferred from Ocala to Freddie Mac custodial accounts maintained by TBW, prior to the TBW bankruptcy. In its filings, Ocala also indicated that it wishes to use the examination to obtain information relating to whether it may have other claims against Freddie Mac relating to TBW's fraudulent conduct prior to the TBW bankruptcy. In June 2013, the Court confirmed Ocala's plan of liquidation. The plan established a liquidation trust, and authorizes it to investigate and initiate actions to recover on claims and causes of action, such as those asserted against Freddie Mac. Discovery is proceeding.

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in the U.S. Bankruptcy Court for the Middle District of Florida against TBW, Freddie Mac and other parties seeking a declaration rescinding $90 million of mortgage bankers bonds providing fidelity and errors and omissions insurance coverage. Several excess insurers on the bonds thereafter filed similar claims in that action. Freddie Mac has filed a proof of loss under the bonds. The underwriters moved for partial summary judgment against Freddie Mac in April 2013. Discovery is proceeding. We are unable at this time to estimate our potential recovery, if any, in this case.

IRS Litigation

In 2010 and 2011, we received Statutory Notices from the IRS assessing a total of $3.0 billion of additional income taxes and penalties for the 1998 to 2007 tax years. We filed a petition with the U.S. Tax Court on October 22, 2010 in response to the Statutory Notices for the 1998 to 2005 tax years and, in 2012, paid the tax assessed in the Statutory Notices for the years 2006 and 2007 of $36 million. In the fourth quarter of 2012 we reached an agreement in principle with the IRS for all years,

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including 2006 and 2007, to favorably resolve the matters in dispute and reduced the previously unrecognized tax benefits to zero. We are currently working with the IRS to finalize the stipulation of settled issues and closing agreement, and expect that a final decision can be entered within the next 12 months.

Lawsuits Involving Real Estate Transfer Taxes

Beginning in 2011 in Michigan, counties in numerous states filed lawsuits challenging Freddie Mac and Fannie Mae's statutory exemption from real estate transfer taxes imposed on the transfer of real property for which Freddie Mac or Fannie Mae was the grantor or grantee. Currently, approximately 30 lawsuits are pending in 16 states and the District of Columbia, including 19 appeals. We have received favorable rulings from district courts in 35 of the cases (seven of which have been affirmed on appeal), and the only unfavorable ruling was overturned on appeal in May 2013. Plaintiffs in these cases are generally seeking a declaration that Freddie Mac and Fannie Mae are not exempt from transfer taxes, damages for unpaid transfer taxes, as well as other items, which may include penalties, interest, liquidated penalties, pre-judgment interest, costs and attorneys' fees. In these actions, FHFA, Freddie Mac and Fannie Mae assert that the enterprises are not liable for the transfer taxes based on federal statutory tax exemptions applicable to each.

At present, it is not possible for us to predict the probable outcome of the remaining lawsuits or any potential effect on our business, financial condition, liquidity, or results of operation. In addition, we are unable to reasonably estimate the possible loss or range of possible loss with respect to the remaining lawsuits due to the following factors, among others: (a) none of the plaintiffs have demanded a stated amount of damages they believe are due; and (b) discovery regarding the amount of damages has not yet been conducted.

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 suppressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint on July 22, 2013.

Litigation Concerning the Purchase Agreement

In July and September 2013, four lawsuits were filed against us in the U.S. District Court for the District of Columbia concerning the August 2012 amendment to the Purchase Agreement. It is possible that similar lawsuits will be filed in the future. The lawsuits are as follows:

- A putative class action lawsuit filed on July 29, 2013 styled Cacciapelle and Bareiss vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA;
- A putative class action lawsuit filed on July 30, 2013 styled American European Insurance Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA;
- A putative class action and shareholder derivative lawsuit filed on September 18, 2013 styled Marneu Holdings, Co. vs. FHFA, Treasury, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation; and
- A lawsuit filed on September 20, 2013 styled Arrowood Indemnity Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, FHFA and Treasury.

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. Plaintiffs in the Arrowood lawsuit allege that they are holders of 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.)

In the lawsuits, plaintiffs allege that the amendment to the Purchase Agreement in August 2012 (which implemented the net worth sweep dividend provisions of the senior preferred stock) 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 seek unspecified damages, equitable and injunctive relief, and costs and expenses, including attorney and expert fees. Plaintiffs in the Arrowood lawsuit also request that, if injunctive relief is 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 state is $42,297,500.

Plaintiffs in the Marneu and Arrowood lawsuits also make certain claims against, and seek certain remedies from, Treasury and FHFA.

The Court consolidated three of the cases (Cacciapelle, American European Insurance Company and Marneu) together in a new case styled In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations. A consolidated amended complaint was filed on December 3, 2013. The consolidated amended complaint makes essentially the same allegations against Freddie Mac as the original complaints described above. FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the consolidated complaint and the other related cases (including Arrowood) on January 17, 2014. Treasury filed a motion to dismiss the same day.

At present, it is not possible for us to predict the probable outcome of these lawsuits 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 consolidated lawsuits, the plaintiffs have not demanded a stated amount of damages they believe are due and the Court has not certified a class.

We received a letter dated October 16, 2013 addressed to the Chief Executive Officer, the Board of Directors and the then Acting Director of FHFA, purportedly on behalf of holders of common stock and junior preferred stock of Freddie Mac. We received a similar letter dated January 6, 2014, and two more dated January 7, 2014, each on behalf of a plaintiff in the consolidated lawsuits. The letters demand that Freddie Mac commence legal action against the U.S. government to recover all losses sustained by Freddie Mac as a result of the August 2012 amendment to the Purchase Agreement. The letters also demand that Freddie Mac take action to terminate the August 2012 amendment to the Purchase Agreement. On January 15, 2014, FHFA (as Conservator) informed the purported shareholders named in the October 16, 2013 letter that the Conservator does not intend to authorize Freddie Mac or its directors or officers on behalf of Freddie Mac to take the actions that such shareholders demand.

NOTE 18: REGULATORY CAPITAL

On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide quarterly submissions to FHFA on minimum capital, but no longer provide submissions on risk-based capital.

Our regulatory minimum capital is a leverage-based measure that is generally calculated based on GAAP and reflects a 2.50% capital requirement for on-balance sheet assets and a 0.45% capital requirement for off-balance sheet obligations. Based upon our adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs, we determined that, under the new consolidation guidance, we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions and, therefore, effective January 1, 2010, we consolidated on our balance sheet the assets and liabilities of these trusts. Pursuant to regulatory guidance from FHFA, our minimum capital requirement was not affected by adoption of these amendments. Specifically, upon adoption of these amendments, FHFA directed us, for purposes of minimum capital, to continue reporting single-family PCs and certain Other Guarantee Transactions held by third parties using a 0.45% capital requirement. FHFA reserves the authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Regulatory Capital Standards

The GSE Act established minimum, critical, and risk-based capital standards for us, however per guidance received from FHFA we no longer are required to submit risk-based capital reports to FHFA.

Prior to our entry into conservatorship, those standards determined the amounts of core capital that we were to maintain to meet regulatory capital requirements. Core capital consisted of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings (accumulated deficit), as determined in accordance with GAAP.

Minimum Capital

The minimum capital standard required us to hold an amount of core capital that was generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of our PCs held by third parties and other aggregate off-balance sheet obligations.

Critical Capital

The critical capital standard required us to hold an amount of core capital that was generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of our PCs held by third parties and other aggregate off-balance sheet obligations.

Performance Against Regulatory Capital Standards

The table below summarizes our minimum capital requirements and deficits and net worth.

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Table 18.1 — Net Worth and Minimum Capital

	December 31, 2013	December 31, 2012
	(in millions)	
GAAP net worth[1]	$12,835	$8,827
Core capital (deficit)[2][3]	$(59,495)	$(60,571)
Less: Minimum capital requirement[2]	21,404	22,063
Minimum capital surplus (deficit)[2]	$(80,899)	$(82,634)

(1) Net worth (deficit) represents the difference between our assets and liabilities under GAAP.
(2) Core capital and minimum capital figures for December 31, 2013 are estimates. FHFA is the authoritative source for our regulatory capital.
(3) Core capital excludes certain components of GAAP total equity (deficit) (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

Following our entry into conservatorship and consistent with the objectives of conservatorship, we have focused our risk and capital management on, among other things, maintaining a positive balance of GAAP equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount at least equal to the difference between such liabilities and assets.

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. If funding has been requested under the Purchase Agreement to address a deficit in our net worth, and Treasury is unable to provide us with such funding within the 60-day period specified by FHFA, FHFA would be required to place us into receivership if our assets remain less than our obligations during that 60-day period.

At December 31, 2013, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. As of December 31, 2013, our aggregate funding received from Treasury under the Purchase Agreement was $71.3 billion. This aggregate funding amount does not include the initial $1 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. We paid quarterly dividends of $5.8 billion, $7.0 billion, $4.4 billion, and $30.4 billion on the senior preferred stock in cash in March 2013, June 2013, September 2013, and December 2013, respectively, at the direction of the Conservator.

Subordinated Debt Commitment

In October 2000, we announced our adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA that updated those commitments and set forth a process for implementing them. FHFA, as Conservator of Freddie Mac, has suspended the requirements in the September 2005 agreement with respect to issuance, maintenance and reporting and disclosure of Freddie Mac subordinated debt during the term of conservatorship and thereafter until directed otherwise.

NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS

Settlement agreements primarily related to lawsuits regarding our investments in certain non-agency mortgage-related securities is a significant component of other income during 2013. For more information, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

The table below presents the significant components of other assets and other liabilities on our consolidated balance sheets.

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Table 19.1 — Significant Components of Other Assets and Other Liabilities on Our Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
	(in millions)	
Other assets:		
Accounts and other receivables[1]	$4,367	$10,091
Guarantee asset	1,611	1,029
All other	2,561	2,645
Total other assets	$8,539	$13,765
Other liabilities:		
Servicer liabilities	$2,277	$3,304
Guarantee obligation	1,522	1,004
Accounts payable and accrued expenses	886	984
All other	807	807
Total other liabilities	$5,492	$6,099

(1) Primarily consists of servicer receivables.

END OF CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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QUARTERLY SELECTED FINANCIAL DATA
(UNAUDITED)

	2013 1Q	2Q	3Q	4Q	Full-Year
	(in millions, except share-related amounts)				
Net interest income	$4,265	$4,144	$4,276	$3,783	$16,468
Benefit (provision) for credit losses	503	623	1,138	201	2,465
Non-interest income (loss):					
Derivative gains (losses)	375	1,362	(74)	969	2,632
Net impairments of available-for-sale securities recognized in earnings	(43)	(44)	(126)	(1,297)	(1,510)
Other non-interest income (loss)	70	(640)	1,889	6,078	7,397
Non-interest income (loss)	402	678	1,689	5,750	8,519
Non-interest expense:					
Administrative expenses	(432)	(444)	(455)	(474)	(1,805)
REO operations income (expense)	(6)	110	79	(43)	140
Other non-interest expense	(186)	(164)	(201)	127	(424)
Non-interest expense	(624)	(498)	(577)	(390)	(2,089)
Income tax (expense) benefit	35	41	23,960	(731)	23,305
Net income	$4,581	$4,988	$30,486	$8,613	$48,668
Total other comprehensive income (loss), net of taxes	$2,390	$(631)	$(49)	$1,222	$2,932
Comprehensive income	$6,971	$4,357	$30,437	$9,835	$51,600
Income (loss) attributable to common stockholders[1]	$(2,390)	$631	$50	$(1,822)	$(3,531)
Income (loss) per common share – basic and diluted[2]	$(0.74)	$0.19	$0.02	$(0.56)	$(1.09)

	2012 1Q	2Q	3Q	4Q	Full-Year
	(in millions, except share-related amounts)				
Net interest income	$4,500	$4,386	$4,269	$4,456	$17,611
Benefit (provision) for credit losses	(1,825)	(155)	(610)	700	(1,890)
Non-interest income (loss):					
Derivative gains (losses)	(1,056)	(882)	(488)	(22)	(2,448)
Net impairments of available-for-sale securities recognized in earnings	(564)	(98)	(267)	(1,239)	(2,168)
Other non-interest income	104	229	195	5	533
Non-interest income (loss)	(1,516)	(751)	(560)	(1,256)	(4,083)
Non-interest expense:					
Administrative expenses	(337)	(401)	(401)	(422)	(1,561)
REO operations income (expense)	(171)	30	49	33	(59)
Other non-interest expense	(88)	(165)	(121)	(199)	(573)
Non-interest expense	(596)	(536)	(473)	(588)	(2,193)
Income tax benefit	14	76	302	1,145	1,537
Net income	$577	$3,020	$2,928	$4,457	$10,982
Total other comprehensive income (loss), net of taxes	$1,212	$(128)	$2,702	$1,271	$5,057

Comprehensive income	$1,789	$2,892	$5,630	$5,728	$16,039
Income (loss) attributable to common stockholders[1]	$(1,227)	$1,212	$1,119	$(3,178)	$(2,074)
Income (loss) per common share – basic and diluted[2]	$(0.38)	$0.37	$0.35	$(0.98)	$(0.64)

(1) For a discussion of how the change in the manner in which the senior preferred stock dividend is determined affects net income (loss) attributable to common stockholders beginning in the fourth quarter of 2012, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share.”

(2) Earnings (loss) per common share is computed independently for each of the quarters presented. Due to the use of weighted average common shares outstanding when calculating earnings (loss) per share, the sum of the four quarters may not equal the full-year amount. Earnings (loss) per common share amounts may not recalculate using the amounts shown in this table due to rounding.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2013. 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 December 31, 2013, 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. As discussed below, we consider this situation to be a material weakness in our internal control over financial reporting. Based on discussions with FHFA and the structural nature of this continuing weakness, we believe it is likely that we will not remediate this material weakness while we are under conservatorship.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It is a process that involves human diligence and compliance and is, therefore, subject to lapses in judgment and breakdowns resulting from human error. It also can be circumvented by collusion or improper management override. Because of its limitations, there is a risk that internal control over financial reporting may not prevent or detect, on a timely basis, errors that could cause a material misstatement of the financial statements.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control — Integrated Framework (1992 Framework). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis by a company's internal controls. Based on our assessment, we identified a material weakness related to our inability to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our consolidated financial statements.

We have been under conservatorship of FHFA since September 6, 2008. FHFA is an independent agency that currently functions as both our Conservator and our regulator with respect to our safety, soundness and mission. Because we are in conservatorship, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our Conservator, FHFA has the power to take actions without our knowledge that could be material to investors and could significantly affect our financial performance. Although we and FHFA have attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as disclosure controls and procedures for a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures under the current circumstances. As our Conservator and regulator, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to us, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible. For example, FHFA may formulate certain intentions with respect to the conduct of our business that, if known to management, would require consideration for disclosure or reflection in our financial statements, but that FHFA, for regulatory reasons, may

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be constrained from communicating to management. As a result, we have concluded that this control deficiency constitutes a material weakness in our internal control over financial reporting.

Because of this material weakness, we have concluded that our internal control over financial reporting was not effective as of December 31, 2013 based on the COSO criteria (1992 Framework). PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of our internal control over financial reporting as of December 31, 2013 and also determined that our internal control over financial reporting was not effective. PricewaterhouseCoopers LLP’s report appears in “FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Report of Independent Registered Public Accounting Firm.”

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

As described under "Management's Report on Internal Control Over Financial Reporting,” we have one material weakness in internal control over financial reporting as of December 31, 2013 that we have not remediated.

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 Office of Conservatorship Operations, which is intended to facilitate operation of the company with the oversight of the Conservator.
- We provide drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also provide drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, review our SEC filings prior to filing, including this Form 10-K, and engage in discussions regarding issues associated with the information contained in those filings. Prior to filing this Form 10-K, FHFA provided us with a written acknowledgement that it had reviewed the Form 10-K, was not aware of any material misstatements or omissions in the Form 10-K, and had no objection to our filing the Form 10-K.
- 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 hold frequent meetings with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and capital markets management, external communications, and legal matters.
- Senior officials within FHFA’s accounting group meet frequently with our senior financial executives regarding our accounting policies, practices, and procedures.

In view of our mitigating actions related to this material weakness, we believe that our consolidated financial statements for the year ended December 31, 2013 have been prepared in conformity with GAAP.

Changes in Internal Control Over Financial Reporting During the Quarter Ended December 31, 2013

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2013 and concluded that the following matter has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting:

- On November 11, 2013, James G. Mackey, Executive Vice President — Chief Financial Officer, joined Freddie Mac, replacing Ross J. Kari.

ITEM 9B. OTHER INFORMATION

Election of Directors

Upon the appointment of FHFA as our Conservator on September 6, 2008, the 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, including, without limitation, the right of holders of our common stock to vote with respect to the election of directors and any other matter for which stockholder approval is required or deemed advisable.

On February 24, 2014, the Conservator executed a written consent re-electing each of the then-current directors as members of our Board of Directors, effective as of that date. The individuals elected as directors by the Conservator are listed below.

Carolyn H. Byrd
Richard C. Hartnack
Steven W. Kohlhagen
Donald H. Layton
Christopher S. Lynch

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Sara Mathew
Saiyid T. Naqvi
Nicolas P. Retsinas
Eugene B. Shanks, Jr.
Anthony A. Williams

The terms of the directors elected under the February 24, 2014 consent will continue until the date of the next annual meeting of stockholders or the Conservator next elects directors by written consent, whichever occurs first.

2014 Target Total Direct Compensation

The Compensation Committee's 2014 Target TDC recommendation for each Named Executive Officer who is a current employee was approved by FHFA and remains unchanged from the 2013 Target TDC, with the exception of Mr. Weiss. For Mr. Weiss, approved increases were $5,000 for Base Salary and $20,000 for Target TDC. These increases were determined after taking into account his performance, the scope and breadth of his responsibilities compared to those of other executives at the company, and that no competitive market data match was available due to the unique nature of his responsibilities.

The following table sets forth the components of compensation on an annual basis for each of our Named Executive Officers who is a current employee.

Table 74 — 2014 Target TDC

Named Executive Officer	Base Salary	Fixed Deferred Salary	At-Risk Deferred Salary	Target TDC
Donald H. Layton	$600,000	$—	$—	$600,000
James G. Mackey	500,000	1,600,000	900,000	3,000,000
David B. Lowman	500,000	1,600,000	900,000	3,000,000
William H. McDavid	500,000	1,320,000	780,000	2,600,000
Jerry Weiss	500,000	900,000	600,000	2,000,000

2014 Complementary Corporate Goals

On January 28, 2014 Freddie Mac adopted corporate performance objectives for 2014 (the "2014 Complementary Corporate Goals"). Under the terms of the 2014 Executive Management Compensation Program, one-half of a participating officer's At-Risk Deferred Salary (or 15% of Target TDC) is subject to reduction based on an assessment of the company's performance against the 2014 Complementary Corporate Goals and the officer's individual performance.

The 2014 Complementary Corporate Goals are as follows:

- People: Maximize the contributions of our people.
- Customers: Strive to achieve industry-leading customer experience levels.
- Mission: Help people own, rent, and stay in their homes.
- Financial Performance: Improve our efficiency and core financial performance.
- Risk Management: Make risk management a competitive advantage.
- Technology and Infrastructure: Utilize technology and infrastructure to prepare for a future competitive market.
- Execution: Do everything better, faster and more cost effectively through superior execution.

Within the seven categories listed above, there are a number of more specific criteria. For example:

- People: Build the right culture; retain high performer talent; and improve leadership diversity.
- Customers: Strengthen market presence and relevance; continue focus on five distinct customer sets, both direct and indirect; provide more efficient customer service; and expand customer communication.
- Mission: Achieve single-family affordable housing goals; increase percent of multifamily purchases with rents less than or equal to small area fair market rents; and increase loan modifications and repayment plans efficiency ratio.
- Financial Performance: Improve single-family profitability; maintain profitable multifamily business; actively manage retained portfolio assets; and strengthen expense management discipline.
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Risk Management: Reinforce risk ownership; make informed risk-reward decisions; and maintain control environment.

- Technology and Infrastructure: Deploy an out-of-region disaster recovery capability; enhance availability of critical, customer-facing applications; and improve facilities utilization.
- Execution: Emphasis on timeliness and quality and focus on efficiency.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Background

On September 6, 2008, the Director of FHFA appointed FHFA as our Conservator. Upon its appointment as Conservator, FHFA immediately succeeded to, among other things, the right of holders of our common stock to vote with respect to the election of directors. During conservatorship, stockholders do not have the ability to recommend director nominees or vote for the election of our directors. Accordingly, we will not solicit proxies, distribute a proxy statement to stockholders, or hold an annual meeting of stockholders in 2014. Instead, the Conservator has elected directors by a written consent in lieu of an annual meeting, as it has done in previous years.

Directors

On November 24, 2008, the Conservator reconstituted our Board of Directors and delegated certain powers to the Board while reserving certain powers of approval to itself. See "Authority of the Board and Board Committees." The Conservator determined that the Board is to have a non-executive Chairman, and is to consist of a minimum of nine and not more than 13 directors, with the Chief Executive Officer being the only corporate officer serving as a member of the Board.

On February 24, 2014 the Conservator executed a written consent, effective as of that date, re-electing each of the then-current directors as a member of our Board of Directors. The terms of those directors will end: (a) on the date of the next annual meeting of our stockholders; or (b) when the Conservator next elects directors by written consent, whichever occurs first. Currently, we have ten directors. The Board is conducting a search for individuals qualified to fill the remaining seats on the Board that are currently vacant.

Our Board seeks candidates for director who have achieved a high level of stature, success, and respect in their principal occupations. Each of our current directors was selected as a candidate because of his or her character, judgment, experience, and expertise. The qualifications of candidates also were evaluated in light of the requirement in our charter, as amended by the Reform Act, that our Board must at all times have at least one individual from the homebuilding, mortgage lending and real estate industries, and at least one person from an organization representing consumer or community interests or one person who has demonstrated a career commitment to the provision of housing for low-income households. Consistent with the examination guidance for corporate governance issued by FHFA, the factors considered also include the knowledge directors would have, as a group, in the areas of business, finance, accounting, risk management, public policy, mortgage lending, real estate, low-income housing, homebuilding, regulation of financial institutions, and any other areas that may be relevant to our safe and sound operation. Additionally, in accordance with the guidance issued by FHFA, we considered whether a candidate's other commitments, including the number of other board memberships held by the candidate, would permit the candidate to devote sufficient time to the candidate's duties and responsibilities as a director. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Diversity" for additional information concerning the Board's consideration of diversity in identifying director nominees and candidates.

The following is a brief discussion of: the age and length of Board service of each director; each director's experience, qualifications, attributes, and/or skills that led to his or her selection as a director; and other biographical information about each director, as of February 24, 2014:

- Carolyn H. Byrd joined the Board in December 2008. She is 65 years old. She is an experienced finance executive who has held a variety of leadership positions. She also has significant public company audit committee experience. Ms. Byrd's internal audit and public company audit committee experience enables her to support the Board's oversight of our internal control over financial reporting and compliance matters.

Ms. Byrd has served as Chairman and Chief Executive Officer of GlobalTech Financial, LLC, a financial services company she founded, since 2000. From 1997 to 2000, Ms. Byrd was President of Coca-Cola Financial Corporation. From 1977 to 1997, Ms. Byrd held a variety of domestic and international positions with The Coca-Cola Company, including Chief of Internal Audits and Director of the Corporate Auditing Department. She is currently a director of AFC Enterprises, Inc., where she is a member of the Audit Committee and the Corporate Governance and Nominating Committee, and of Regions Financial Corporation, where she is chair of the Audit Committee and a member of the Risk Committee. Ms. Byrd is a former member of the board of directors and audit committee member of Circuit City

Stores, Inc. and RARE Hospitality International, Inc., and she also served on the board of directors of St. Paul Travelers Companies, Inc.

- Richard C. Hartnack joined the Board in May 2013. He is 68 years old. Mr. Hartnack is a seasoned industry executive with proven leadership experience and a deep understanding of our industry. He has detailed knowledge of underwriting, servicing and technology.

Mr. Hartnack was vice chairman and head of consumer and small business banking at U.S. Bancorp until his retirement in February 2013. Prior to joining U.S. Bancorp in 2005, Mr. Hartnack served as vice chairman, director and head of the community banking group at Union Bank of California from 1991. Previously, he was executive vice president at First Chicago Corporation where he was responsible for community banking. Earlier, he was in charge of corporate banking at First Interstate Bank of Oregon, where he began his banking career in 1971. He is a past director of the Federal Reserve Bank of San Francisco, MasterCard International (U.S. Region), UnionBanCal Corporation and U.S. Bank (a subsidiary of U.S. Bancorp). He also previously served as chairman of the California Bankers Association and the Bank Administration Institute.

- Steven W. Kohlhagen joined the Board in February 2013. He is 66 years old. He is nationally recognized as a leading financial expert with extensive knowledge of mortgage finance and the capital markets. He brings to the Board a unique combination of senior executive leadership skills and a deep understanding of economics, modeling and complex financial instruments.

Over the course of his career, Mr. Kohlhagen held senior executive positions at leading financial institutions. From 1992 to 2003 he worked at First Union National Bank (predecessor to Wachovia National Bank and Wells Fargo), last serving as managing director of the Fixed Income Division. Mr. Kohlhagen served in senior roles at AIG Financial Products from 1990 to 1992, Stamford Capital Group from 1987 to 1990, Bankers Trust Corporation from 1985 to 1987, and Lehman Brothers, Inc. from 1983 to 1985. Mr. Kohlhagen's public sector experience encompasses consulting work for the Organization for Economic Cooperation and Development from 1980 to 1981, the United States Department of the Treasury from 1976 to 1977, and the Federal Reserve Board in 1976. He was also senior staff economist for the Council of Economic Advisors, White House Staff from 1978 to 1979.

Mr. Kohlhagen has been a director: since 2006, of AMETEK Inc., a global manufacturer of electronic instruments and electromechanical devices, where he is a member of the Audit Committee; since 2012, of Abtech Holdings Inc., a developer and manufacturer of environmental technologies, where he is a member of the Audit Committee; since 2013, of GulfMark Offshore Inc., a marine transportation services company, where he is a member of the Audit Committee and Compensation Committee; and, since 2007, of Reval Inc., a financial risk management and treasury management systems provider, where he is a member of the Governance and Nominating Committee. Mr. Kohlhagen served as a director of the IQ Mutual Funds, a family of Merrill Lynch registered, closed-end investment companies, from 2005 to 2010. Since 2001, Mr. Kohlhagen has been an Advisory Board member of the Stanford Institute for Economic Policy Research. He has also served on the Board of Advisors of Roper St. Francis Cancer Center, Charleston, S.C., since 2011. In addition, he served as a professor of international economics and finance at the University of California, Berkeley from 1973 to 1983.

- Donald H. Layton joined the Board in May 2012, upon commencement of his employment as Chief Executive Officer. He is 63 years old. He is an experienced finance executive and leader of finance and investment organizations. Mr. Layton's experience as a leader of financial organizations enables him to provide valuable business and operating perspectives to the Board.

Prior to joining Freddie Mac, Mr. Layton worked for nearly 30 years at JPMorgan Chase and its predecessors, starting as a trainee and rising to vice chairman and a member of the company's three-person Office of the Chairman, retiring in 2004. In his career at JPMorgan Chase, Mr. Layton's responsibilities spanned capital markets and investment banking, consumer banking and operating services. From 2002 to 2004, he was responsible for the company's Chase Financial Services unit, which included the fourth largest mortgage firm in the U.S. He was co-chief executive officer of J.P. Morgan, the investment bank of JPMorgan Chase, overseeing the entire range of the investment bank's global activities, from 2000 to 2002. Prior to the merger of Chase Manhattan and J.P. Morgan in 2000, Mr. Layton was responsible for Chase's worldwide capital markets and trading activities, including foreign exchange, risk management products, emerging markets, and fixed income, as well as its operating services businesses. He additionally supervised the bank's investment portfolio for many years. More recently, Mr. Layton served as chairman and chief executive officer of online brokerage E*TRADE Financial Corporation. He joined E*TRADE Financial Corporation as chairman in November 2007 and became chief executive officer in March 2008, retiring in December 2009.

Mr. Layton also served as a senior advisor to the Securities Industry and Financial Markets Association from 2006 to 2008 and is chairman of the board of the Partnership for the Homeless, a nonprofit dedicated to reducing homelessness in New York City. Mr. Layton was a member of the board of directors of Assured Guaranty Ltd. from May 2006 to May 2012 and a member of the board of directors of American International Group, Inc. from April 2010 to May 2012.

- Christopher S. Lynch joined the Board in December 2008. He is 56 years old. He is an experienced senior accounting executive who served as the lead audit signing partner and account executive for several large financial institutions with mortgage lending businesses. He also has significant public company audit committee experience and risk management experience. Mr. Lynch’s extensive experience in finance, accounting and risk management enables him to provide valuable guidance to the Board on complex accounting and risk management issues.

Mr. Lynch has served as Non-Executive Chairman of Freddie Mac since December 2011. Mr. Lynch is an independent consultant providing a variety of services to financial intermediaries, including corporate restructuring, risk management, strategy, governance, financial and regulatory reporting and troubled-asset management. Mr. Lynch

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retired from KPMG LLP in May 2007, where he held a variety of leadership positions, including National Partner in Charge — Financial Services, the U.S. firm's largest industry division. Mr. Lynch chaired KPMG's Americas Financial Services Leadership team, was a member of the Global Financial Services Leadership and the U.S. Industries Leadership teams and led the Banking & Finance practice. Mr. Lynch also served as a partner in KPMG's Department of Professional Practice and as a Practice Fellow at the Financial Accounting Standards Board. Mr. Lynch also is a director of American International Group, Inc., where he is the Chair of the Audit Committee and a member of the Finance and Risk Management Committee. In addition, Mr. Lynch serves on the National Audit Committee Chair Advisory Council of the National Association of Corporate Directors. Mr. Lynch is a frequent speaker on matters pertaining to corporate governance, risk management, corporate restructuring, executive development, housing finance, and regulatory reporting.

- Sara Mathew joined the Board in December 2013. She is 58 years old. She is an executive with global financial and general management experience. Ms. Mathew's extensive business, financial and management experience, and her public company board and audit committee experience, enable her to contribute to the Board's oversight of the management and operation of the Company and of its financial reporting.

From 2001 until December 2013, Ms. Mathew worked at The Dun & Bradstreet Corporation ("D&B"), serving as Chairman, President and Chief Executive Officer from 2010-2013. In 2007, she was appointed President and Chief Operating Officer, in January 2010, Chief Executive Officer and in December 2010, Chairman. Before joining D&B, Ms. Mathew spent 18 years at The Procter & Gamble Company in a variety of finance and management positions: her last position was Vice President, Finance, Australia, Asia and India from 2000 - 2001. Since 2005, Ms. Mathew has been a director of Campbell Soup Company, Inc., a manufacturer and marketer of branded convenience food products, where she is chair of the Audit Committee and a member of the Governance Committee. Since 2013, Ms. Mathew also has served as a director of Avon, a leading global beauty company, where she is a member of the Finance Committee. Ms. Mathew served as a director of D&B from 2008-2013. Since 2012, Ms. Mathew has been on the International Advisory Council for Zurich Financial Services Group, a multi-line insurance provider.

- Saiyid T. Naqvi joined the Board in August 2013. He is 64 years old. He is a seasoned financial executive with proven leadership experience and detailed knowledge of mortgage and consumer financial operations, as well as a deep background in risk and operational management.

Mr. Naqvi led PNC Mortgage Corporation of America as president and chief executive officer between 1995 and 2001, when PNC Financial Services Group sold its mortgage business. In 2009, Mr. Naqvi returned to supervise the bank's integration of National City Mortgage Company and to head the newly constituted PNC Mortgage as president and chief executive officer. PNC Mortgage operates as a division of PNC Bank, National Association, which is a subsidiary of PNC Financial Services Group. Until his retirement in April 2013, Mr. Naqvi was responsible for management of PNC Mortgage's $121 billion portfolio and national network of 91 retail mortgage offices. Between 2001 and 2009, he held a number of leadership positions, including president of Harley-Davidson Financial Services, Inc., chief executive officer of DeepGreen Financial, Inc., and president and chief executive officer of Setara Corporation. Mr. Naqvi formerly served on the boards of Genworth Financial, Inc. and Hanover Capital Mortgage Holdings, Inc.

- Nicolas P. Retsinas joined the Board in June 2007. He is 67 years old. He is an experienced leader in the governmental and educational sectors, with in-depth knowledge of the mortgage lending, real estate and homebuilding industries. He also has represented consumer and community interests and has demonstrated a career commitment to the provision of housing for low-income households. Mr. Retsinas' public, private and academic experience, including his service on the boards of several not-for-profit organizations, enables him to bring to the Board broad knowledge and understanding of housing and consumer and community issues.

Mr. Retsinas is a senior lecturer in Real Estate at the Harvard Business School and is Director Emeritus of Harvard University's Joint Center for Housing Studies, where he served as Director from 1998 to 2010. He is also a lecturer in Housing Studies at the Graduate School of Design. Prior to his Harvard appointment, Mr. Retsinas served as Assistant Secretary for Housing — Federal Housing Commissioner at the United States Department of Housing and Urban Development from 1993 to 1998 and as Director of the Office of Thrift Supervision from 1996 to 1997. He served on the Board of the Federal Deposit Insurance Corporation from 1996 to 1997, the Federal Housing Finance Board from

1993 to 1998 and the Neighborhood Reinvestment Corporation from 1993 to 1998. Mr. Retsinas also formerly served on the Board of Trustees for the National Housing Endowment and Enterprise Community Partners. Currently, Mr. Retsinas serves on the Board of Directors of the Center for Responsible Lending, as a member of the Bipartisan Policy Center's Housing Commission, and as chair of the Providence Housing Authority.

- Eugene B. Shanks, Jr. joined the Board in December 2008. He is 66 years old. He is an experienced finance executive with leadership and risk management expertise. Mr. Shanks' leadership and risk management experience enables him to provide the Board with valuable guidance on risk management issues and our strategic direction.

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Mr. Shanks is a Trustee of Vanderbilt University, a member of the Advisory Board of the Stanford Institute for Economic Policy Research, a director of ACE Limited, where he serves as a member of the Risk and Finance Committee, a Senior Advisor to Bain and Company, and a founding director at The Posse Foundation. From November 2007 until August 2008, Mr. Shanks was a senior consultant to Trinsum Group, Incorporated, a strategic consulting and asset management company. From 1997 until its sale in 2002, Mr. Shanks was President and Chief Executive Officer of NetRisk, Inc., a risk management software and advisory services company he founded. From 1973 to 1978 and from 1980 to 1995, Mr. Shanks held a variety of positions with Bankers Trust New York Corporation, including head of Global Markets from 1986 to 1992 and President and Director from 1992 to 1995. From 1978 to 1980, he was Treasurer of Commerce Union Bank in Nashville, Tennessee.

- Anthony A. Williams joined the Board in December 2008. He is 62 years old. He is an experienced leader in national, state and local governments, with extensive knowledge concerning real estate and housing for low-income individuals. He also has significant experience in financial matters and is an experienced academic focusing on public management issues. Mr. Williams' leadership and operating experience in the public sector allows him to provide a unique perspective on state and local housing issues.

Mr. Williams is the CEO and Executive Director of the Federal City Council of Washington, DC, an organization instrumental in local projects such as the Metro, Ronald Reagan Building and International Trade Center, and revitalization of Union Station. He was the Bloomberg Lecturer in Public Management at Harvard's Kennedy School of Government from 2009 through 2012. He also served as the Executive Director of Global Government Practice from January 2010 until January 2012 and as a Senior Fellow from January 2012 until June 2012 at the Corporate Executive Board Company. Since September 2011, Mr. Williams has been affiliated with McKenna, Long & Aldridge, LLP, a law firm, and from May 2009 until September 2011 he was affiliated with the law firm of Arent Fox LLP. Mr. Williams served as Chief Executive Officer of Primum Public Realty Trust, from January 2007 until December 2008.

Mr. Williams was elected to two terms as the fourth mayor of Washington, D.C. from 1999 to January 2007, having served as Chief Financial Officer from 1995 to 1998. He also served as President of the National League of Cities and as Vice-Chair of the Metropolitan Washington Council of Governments. From 1993 to 1995, Mr. Williams was the first Chief Financial Officer for the U.S. Department of Agriculture. From 1991 to 1993, Mr. Williams was the Deputy State Comptroller of Connecticut. From 1989 to 1991, Mr. Williams was the Executive Director of the Community Development Agency of St. Louis, Missouri. From 1988 to 1989, he worked as Assistant Director of the Boston Redevelopment Agency where he led the Department of Neighborhood Housing and Development, one of the authority's primary divisions. Mr. Williams also previously served as a director of Meruelo Maddux Properties, Inc. Mr. Williams is also on the board of the Calvert Sage Fund and of each fund comprising the Calvert Multiple Funds.

Authority of the Board and Board Committees

The directors serve on behalf of, and exercise authority as directed by, the Conservator. The Conservator has delegated to the Board and its committees authority to function in accordance with the duties and authorities set forth in applicable statutes, regulations, guidance, orders and directives and our Bylaws and Board committee charters, but reserved certain items requiring Conservator approval. On November 15, 2012, the Conservator revised and expanded the categories of items requiring Conservator approval, instructing the Board that it should oversee that management consults with and obtains approval of the Conservator before taking action in the following areas:

- matters requiring the approval of or consultation with Treasury under the covenants of the Purchase Agreement (see "BUSINESS — Conservatorship and Related Matters — Treasury Agreements – Covenants Under Treasury Agreement");
- redemptions or repurchases of subordinated debt, except as necessary to comply with the limit in the Purchase Agreement;
- increases in Board risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk;
- matters that relate to the Conservator's powers, the status of Freddie Mac in conservatorship, or the legal effect of the conservatorship on contracts, such as, but not limited to, the initiation of material actions in connection with litigation addressing the actions or authority of the Conservator, repudiation of contracts, qualified financial contracts in dispute due to conservatorship status, and counterparties attempting to nullify or amend contracts due to conservatorship

status;

- retention and termination of external auditors and law firms serving as consultants to the Board;
- agreements relating to litigation, claims, regulatory proceedings, or tax-related matters where the value of the claim is in excess of $50 million, including related matters that aggregate to more than $50 million (but excluding loan workouts);
- alterations or changes to the terms of any master agreement between us and any of our top five single-family sellers or servicers that are not otherwise mandated by FHFA and that will alter, in a material way, the business relationship between the parties;

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- termination of a contract (other than by expiration pursuant to its terms) between us and any of our top five single-family sellers or servicers;
- actions that, in the reasonable business judgment of management at the time that the action is to be taken, are likely to cause significant reputational risk to us or result in substantial negative publicity;
- creation of any subsidiary or affiliate, or entering into a substantial transaction with a subsidiary or affiliate, except for the creation of, or a transaction with, a subsidiary or affiliate undertaken in the ordinary course of business (e.g., creation of a securitization trust or REMIC);
- setting or increasing the compensation or benefits payable to directors;
- entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for senior vice presidents and above and other officers as FHFA may deem necessary to successfully execute its role as Conservator;
- any establishment or modification by us of performance management processes for such officers, including the establishment or modification of a Conservator scorecard;
- any assessment by us of our performance against a Conservator scorecard; and
- establishing the annual operating budget.

FHFA has indicated that it expects the Board to review and approve all matters that will require Conservator approval before such matters are submitted to FHFA. In addition, FHFA requires us to provide timely notice to it of any planned changes in business processes or operations, including changes to single-family or multifamily credit policies and loss mitigation strategies that management has determined in its reasonable business judgment to be significant, other than changes made at the direction or request of FHFA. FHFA will then determine whether any such actions or plans require Conservator and/or Board review or approval. Finally, in September 2013, FHFA informed us that mortgage servicing right (MSR) sales and transfers and servicing transfers would require Conservator approval until further notice. FHFA modified this in October 2013 to require reporting to FHFA of all such sales and transfers and FHFA approval for sales or transfers involving 25,000 or more loans. Prior Board approval is not required.

The Board has five standing committees: Audit; Business and Risk; Compensation; Executive; and Nominating and Governance. All standing committees other than the Executive Committee meet regularly. The membership of each committee as of February 24, 2014 is shown in the table below.

Table 75 — Board of Directors Committee Membership

Director	Audit	Business and Risk	Compensation	Executive	Nominating and Governance
C. Byrd	C				
R. Hartnack					
S. Kohlhagen		C			
D. Layton					
C. Lynch				C	
S. Mathew					
S. Naqvi					
N. Retsinas					
E. Shanks					C
A. Williams			C		

= Member of the Committee
C =Chairman of the Committee

Charters describing the duties of the committees have been adopted by the Board and approved by the Conservator. All of the charters of standing committees are available on our website at www.freddiemac.com/governance/bd committees.html.

Our Board has an independent Non-Executive Chairman, whose responsibilities include presiding over meetings of the Board, regularly scheduled executive sessions of the non-employee directors, and executive sessions including only the independent directors that occur at least once annually if any of the non-employee directors are not independent. Mr. Lynch has served as Non-Executive Chairman since December 2011.

Communications with Directors

Interested parties wishing to communicate any concerns or questions about Freddie Mac to the Non-Executive Chairman of the Board or to our non-employee directors as a group may do so by U.S. mail, addressed to the Corporate Secretary, Freddie

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Mac, Mail Stop 200, 8200 Jones Branch Drive, McLean, VA 22102-3110. Communications may be addressed to a specific director or directors or to groups of directors, such as the independent or non-employee directors.

Executive Officers

As of February 25, 2014, our executive officers are as follows:

Name	Age	Year of Affiliation	Position
Donald H. Layton	63	2012	Chief Executive Officer
James G. Mackey	46	2013	Executive Vice President — Chief Financial Officer
David M. Brickman	48	1999	Executive Vice President — Multifamily
David B. Lowman	56	2013	Executive Vice President —Single-Family Business
William H. McDavid	67	2012	Executive Vice President — General Counsel & Corporate Secretary
Jerry Weiss	56	2003	Executive Vice President — Chief Administrative Officer
Paige H. Wisdom	52	2008	Executive Vice President — Chief Enterprise Risk Officer
Michael T. Hutchins	58	2013	Senior Vice President — Investments and Capital Markets
Timothy F. Kenny	52	2007	Senior Vice President — General Auditor
Robert Lux	50	2010	Senior Vice President — Chief Information Officer
Robert D. Mailloux	46	2002	Senior Vice President — Corporate Controller & Principal Accounting Officer
Dwight P. Robinson	60	1998	Senior Vice President — Human Resources, Diversity and Outreach
Carol A. Wambeke	54	1997	Senior Vice President — Chief Compliance Officer

The following is a brief biographical description of each executive officer who is not also a member of the Board.

James G. Mackey was appointed Executive Vice President - Chief Financial Officer in November 2013. Mr. Mackey joined us from Ally Financial Inc., an auto finance and direct banking financial services company, where he served as Executive Vice President and Chief Financial Officer beginning in June 2011, after serving as Interim Chief Financial Officer from April 2010. Mr. Mackey joined Ally Financial in March 2009 as Group Vice President and Senior Finance Executive. Previously, Mr. Mackey served as Chief Financial Officer for the Corporate Investments, Corporate Treasury and Private Equity divisions at Bank of America Corporation, a financial services firm, from 2007 to 2009.

David M. Brickman was appointed Executive Vice President — Multifamily in February 2014 and prior to that served as our Senior Vice President — Multifamily from July 2011. In these roles, he has been responsible for overall management of our Multifamily business line. From June 2011 until July 2011, he served as Senior Vice President — Multifamily Commercial Mortgage-Backed Security Capital Markets. From March 2004 until June 2011, he served as Vice President in charge of various units responsible for Multifamily Capital Markets. In his previous roles at Freddie Mac, Mr. Brickman led the multifamily pricing, costing and research teams, was responsible for the development and implementation of new quantitative pricing models and financial risk analysis frameworks for all multifamily programs, and designed several of Freddie Mac's multifamily financing products, including the Capital Markets Execution and the K-Deal Securitization Program. Prior to joining Freddie Mac in 1999, Mr. Brickman co-led the Mortgage Finance and Credit Analysis group in the consulting practice at PricewaterhouseCoopers LLP.

David B. Lowman was appointed Executive Vice President - Single-Family Business in May 2013. Previously, Mr. Lowman served as a Senior Advisor to The Boston Consulting Group. Prior to that, he was the Chief Executive Officer of Chase Home Lending from 2006 to 2011. Before Chase Home Lending, he spent a decade in senior leadership roles in various lending businesses of Citigroup, including head of CitiMortgage and Citicorp Trust Bank, FSB. Before joining Citigroup, Mr. Lowman spent 11 years at The Prudential Home Mortgage Company, Inc. in progressively senior leadership roles. He started his career at KPMG where his clients included banks, thrifts and mortgage bankers.

William H. McDavid was appointed Executive Vice President — General Counsel and Corporate Secretary in July 2012. Previously, Mr. McDavid was Co-General Counsel of JPMorgan Chase from 2004 until his retirement in 2006, and was General Counsel of JPMorgan Chase from 2000 to 2004. Prior to that, he was General Counsel of various predecessors to JPMorgan Chase, including The Chase Manhattan Corporation from 1996 to 2000 and of Chemical Banking Corporation from

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1988 to 1996. From 1981 to 1988, he was an Associate General Counsel at Bankers Trust Company, and from 1972 to 1981 he was an attorney with the law firm of Debevoise & Plimpton.

Jerry Weiss was appointed Executive Vice President — Chief Administrative Officer in August 2010. In this role, Mr. Weiss manages the services and operations of Freddie Mac's Strategy; External Relations, including Government and Industry Relations; Public Relations and Corporate Marketing; Internal Communications; Models, Mission and Research; Conservatorship and Corporate Initiatives; Enterprise Project Management; and Making Home Affordable — Compliance organizations. For a period subsequent to his appointment as Executive Vice President — Chief Administrative Officer, he also served as our Chief Compliance Officer from August 2010 until June 2011. Prior to August 2010, Mr. Weiss served as our Senior Vice President and Chief Compliance Officer and in various other senior management capacities since joining us in October 2003. Prior to joining us, Mr. Weiss worked from 1990 at Merrill Lynch Investment Managers, most recently as First Vice President and Global Head of Compliance. From 1982 to 1990, Mr. Weiss was with a national law practice in Washington, D.C., where he specialized in securities regulation and corporate finance matters.

Paige H. Wisdom has served as our Chief Enterprise Risk Officer since April 2010. She currently serves as our Executive Vice President — Chief Enterprise Risk Officer, a position to which she was appointed in October 2010. Prior to this appointment, she served as our Senior Vice President — Chief Enterprise Risk Officer from April 2010 until October 2010. In these roles, Ms. Wisdom has been responsible for providing overall leadership and direction for enterprise risk management and leading an integrated framework for managing credit risk, market risk, operational risk and all other aspects of risk across the organization. Prior to this, she served as the Senior Vice President — Business Unit Chief Financial Officer from January 2008 until April 2010. From August 2004 until December 2007, Ms. Wisdom served as a Business Unit Chief Financial Officer at Bank of America for key businesses including: Global Business and Financial Services; Business Lending; and Global Technology, Service and Fulfillment. Prior to joining Bank of America, Ms. Wisdom served at Bank One Corporation/JPMorgan from June 2000 until July 2004, as the Chief Financial Officer, Corporate Bank and Co-Head Credit Portfolio Management. Prior to that, she served in capital markets positions at UBS/Warburg Dillon Read, Citibank Salomon Smith Barney, and Swiss Bank Corporation.

Michael T. Hutchins was appointed Senior Vice President - Investments and Capital Markets in July 2013. Previously, Mr. Hutchins was Co-Founder and Chief Executive Officer of PrinceRidge, a financial services firm. Prior to founding PrinceRidge, he was with UBS from 1996-2007, holding a variety of positions, including the Global Head of the Fixed Income Rates & Currencies Group. Prior to UBS, Mr. Hutchins worked at Salomon Brothers from 1986 - 1996, where he held a number of management positions, including Co-Head of Fixed Income Capital Markets.

Timothy F. Kenny was appointed Senior Vice President — General Auditor in July 2008. Prior to this appointment, Mr. Kenny served as Vice President and Interim General Auditor starting in May 2008. Before that, he served as our Vice President — Assistant General Auditor from September 2007 to May 2008. From 2001 to 2007, Mr. Kenny was a Managing Director with BearingPoint, Inc. (formerly KPMG Consulting, Inc.) where he directed a large team of financial professionals on a variety of financial risk management consulting projects with Ginnie Mae, the Federal Housing Administration, private sector mortgage bankers and other federal credit agencies. He joined KPMG LLP, the predecessor organization to KPMG Consulting, in 1986, was promoted to a KPMG Audit Partner in 1997, and served in that position until the separation of KPMG Consulting from KPMG LLP in February 2001. From 2004 until 2008, Mr. Kenny was a member of the board of directors of Farmer Mac, a government sponsored enterprise that has established a secondary market for agricultural loans.

Robert Lux was appointed Senior Vice President – Chief Information Officer in October 2010. Prior to joining Freddie Mac, from 2008 to 2010, Mr. Lux served as a Principal at Towers Watson, a leading global professional services company, where he was responsible for leading teams on three continents in the delivery of commercial risk modeling applications for the insurance industry. From 2003 to 2008, Mr. Lux held a series of positions with increasing responsibilities, including service as the Chief Architect for GMAC Financial Services and Chief Technology Officer for GMAC Residential Capital. Prior to that, he held information technology leadership positions at Electronic Data Systems and Reuters Group PLC.

Robert D. Mailloux was appointed Senior Vice President — Corporate Controller & Principal Accounting Officer in April 2010. Prior to holding his current position, Mr. Mailloux served as our Vice President — Acting Corporate Controller beginning in October 2008. Prior to that appointment, he served as Vice President — Multifamily & Corporate Segment Controller, from May 2008 until October 2008, and as Vice President — Corporate Financial Accounting from September 2004 until May 2008. Before that, Mr. Mailloux held the position of Director — Corporate Reporting and Analysis from March 2002 until September 2004. Before joining us, Mr. Mailloux served for 12 years at a leading accounting firm, where he managed a variety of large audit and consulting engagements in the financial services and real estate industries.

Dwight P. Robinson was appointed Senior Vice President — Human Resources, Diversity and Outreach in September 2012. Prior to holding his current position, Mr. Robinson served as Senior Vice President – Housing Outreach and Chief Diversity Officer beginning in October 2011. Prior to that appointment, he served as Senior Vice President – Corporate Relations & Housing Outreach beginning in February 2005. Prior to that appointment, Mr. Robinson served as Senior Vice President — Corporate Relations beginning in September 1999. Mr. Robinson joined us in March 1998 as Vice President — Industry Relations. Prior to joining Freddie Mac, from 1994 to 1998 Mr. Robinson served as the Deputy Secretary of HUD, functioning as Chief Operating Officer. Before assuming the position at HUD, from 1993 to 1994 Mr. Robinson served as the president of Ginnie Mae, where he was responsible for all major policy decisions affecting Ginnie Mae issuers and purchasers worldwide.

Carol A. Wambeke was appointed Senior Vice President — Chief Compliance Officer in June 2011. In this position, she manages Freddie Mac's compliance with legal and regulatory requirements and related controls that govern the company's business activities. Prior to this, Ms. Wambeke served as Vice President of Compliance & Regulatory Affairs from June 2008 until June 2011. In this role, she was responsible for coordinating regulatory-related activities across the company and advising management on regulatory concerns and initiatives. Prior to transferring to the Compliance Division, she was Vice President — Regulatory Reporting & Analysis from February 2005 to June 2008 and Vice President — Regulatory Capital Operations from March 2004 to February 2005. She joined Freddie Mac in 1997 as a senior economist and served in various positions prior to 2004 with responsibility for financial and housing economics and regulatory capital management.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the directors and executive officers of a reporting company and persons who own more than 10% of a registered class of such company's equity securities to file reports of ownership and changes in ownership with the SEC. Based solely on a review of such reports, we believe that during 2013 all of our directors and executive officers complied with such reporting obligations, except that the Form 3 for Devajyoti Ghose, a former Section 16 officer, which had initially been filed on time on May 25, 2011, was amended on March 1, 2013 to include 1,750 shares of common stock inadvertently omitted from the original Form 3 due to an oversight of the reporting officer.

Codes of Conduct

We have separate codes of conduct applicable to all employees and to Board members that outline the principles, policies, and laws governing their activities. Upon joining us or our Board, all employees and directors, respectively, are required to sign acknowledgements that they have read the applicable code and agree to abide by it. In addition, all employees and directors must respond to an annual questionnaire concerning code compliance. The employee code also serves as the code of ethics for senior executives and financial officers required by the Sarbanes-Oxley Act and SEC regulations. Copies of our employee and director codes of conduct are available, and any amendments or waivers that would be required to be disclosed are posted, on our website at www.freddiemac.com.

Audit Committee Financial Expert

We have a standing Audit Committee that satisfies the "audit committee" definition under Section 3(a)(58)(A) of the Exchange Act and the requirements of Rule 10A-3 under the Exchange Act. Although our stock was delisted from the NYSE in July 2010, certain of the corporate governance requirements of the NYSE Listed Company Manual, including those relating to audit committees, continue to apply to us because they are incorporated by reference in the FHFA corporate governance regulations. Our Audit Committee satisfies the "audit committee" requirements set forth in Sections 303A.06 and 303A.07 of the NYSE Listed Company Manual. The current members of the Audit Committee are Carolyn H. Byrd, Richard C. Hartnack, Christopher S. Lynch, Sara Mathew and Anthony A. Williams, all of whom the Board determined in January 2014 are independent within the meaning of Rule 10A-3 under the Exchange Act and Section 303A.02 of the NYSE Listed Company Manual.

Ms. Byrd has been a member of the Audit Committee since December 2008 and is currently its chairman. The Board initially determined in March 2012 and again determined in January 2014 that Ms. Byrd meets the definition of an "audit committee financial expert" under SEC regulations.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section contains information regarding our compensation programs and policies, which reflect direction we have received from FHFA as Conservator and which have been approved by FHFA. These programs and policies were applicable to the following individuals, who were determined, pursuant to SEC rules, to be our Named Executive Officers, or NEOs, for the year ended December 31, 2013.

- Donald H. Layton, Chief Executive Officer
- James G. Mackey, Executive Vice President — Chief Financial Officer

- Ross J. Kari, Former Executive Vice President — Chief Financial Officer
- David B. Lowman, Executive Vice President — Single-Family Business
- William H. McDavid, Executive Vice President — General Counsel and Corporate Secretary
- Jerry Weiss, Executive Vice President — Chief Administrative Officer

For further information on our primary business objectives and the progress we made during 2013 in accomplishing those objectives, see “BUSINESS — Executive Summary.”

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Executive Management Compensation Program

Since Freddie Mac was placed in conservatorship in 2008, our executive compensation program has undergone numerous changes, resulting in a significant decrease in the amount of compensation paid to our senior executive team. Specific changes include:

- Reduction of target compensation by 10% in 2009 and by 10% again in 2012 for most of the senior executives working for us at the beginning of those years;
- Termination of the pension plan and Pension SERP at the end of 2013 at FHFA's direction;
- Institution by FHFA of a freeze in salary and total compensation for all of 2011 and 2012, such that changes to base salaries and Target TDC were only provided for promotions and other significant increases in responsibility;
- Reduction of annual CEO compensation to $600,000; and
- Elimination of bonuses and the potential for the at-risk elements of compensation for our senior executives to exceed target levels, regardless of the level of company and/or individual performance.

As a result of these and other actions taken since we were placed in conservatorship, the aggregate level of compensation for our executives is now well below the 50th percentile of the competitive market.

The company's current status, uncertain future, and the level of compensation paid to our executives all contribute to concerns about our ability to attract and retain competent and experienced executives and employees. However, our public mission and certain features of our executive compensation program have enabled us to do so despite the challenges resulting from our current circumstances. Our public mission to expand opportunities for homeownership and affordable rental housing attracts employees at all levels who seek to help rebuild the nation's housing finance system and be involved in the ongoing recovery of the housing market. Also, the higher proportion of fixed compensation in our executive compensation program — only 30% of pay is at-risk, significantly below the levels at companies with which we compete for talent — provides a degree of certainty that offsets, at least to some degree, the uncertain future of the company and the below market compensation levels.

Overview of Program Structure

The 2013 Executive Management Compensation Program, or the Executive Compensation Program, was adopted effective January 1, 2013. It replaced the program that was in place during 2012. There were three primary changes introduced in 2013, as follows:

1. The forfeiture provision for Fixed Deferred Salary was extended, such that the 25-month vesting schedule will reset annually and earned but unpaid amounts will be reduced by 2% for each full or partial month by which a termination precedes January 31 of the second year following the performance year;
2. A retirement provision was added that provides that officers who are at least 65 years old, regardless of their length of service, will be considered retirement-eligible and not subject to the 2% reduction described above; and
3. At-Risk Deferred Salary was linked to corporate goals which are complementary to Conservatorship Scorecard objectives (the Complementary Corporate Goals), such that the portion of At-Risk Deferred Salary that in prior years was linked only to individual performance is now linked to both individual performance and the company’s performance against the Complementary Corporate Goals.

For a description of our executive compensation program for 2014, see our Current Report on Form 8-K filed on December 10, 2013.

Compensation in 2013 for each NEO other than Mr. Layton was governed by the Executive Compensation Program. A further discussion of Mr. Layton’s compensation is set forth below in “— Chief Executive Officer Compensation.” The Executive Compensation Program attempts to balance our need to retain critical executive talent and attract new executive talent with the promotion of the conservatorship objectives, the Complementary Corporate Goals and the interests of taxpayers. All compensation under the Executive Compensation Program is delivered exclusively in cash because we cannot provide equity-based compensation to our employees under the terms of the Purchase Agreement, unless such grants are approved by Treasury.

Although the Compensation Committee plays a significant role in considering and recommending executive compensation, FHFA continues to be actively involved in determining such compensation. During conservatorship, the Compensation Committee’s authority and flexibility have been exercised while recognizing the following circumstances:

- When FHFA was appointed as our Conservator in September 2008, it assumed all of the rights, titles, powers, and privileges of the company and its stockholders, directors and management, including the authority to set executive compensation. Under the terms of the Purchase Agreement, FHFA is required to consult with Treasury on any increases in compensation or new compensation arrangements for our executive officers.
- Our directors serve on behalf of FHFA and exercise their authority as directed by FHFA. More information about the role of our directors is provided above in "DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE — Authority of the Board and Board Committees."

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- FHFA has directed that its approval be obtained before taking action involving: (i) entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for officers at the senior vice president level and above and for other officers as FHFA may deem necessary to successfully carry out its role as Conservator; (ii) any establishment or modification by us of performance management processes for such officers; and (iii) any assessment by us of our performance against conservatorship scorecards.
- FHFA retains the authority not only to approve both the terms and amount of any compensation prior to payment to any of our executive officers, but also to modify any existing compensation arrangements.

Executive Compensation Best Practices

We employ the following executive compensation best practices:

- No agreements that guarantee a specific amount of compensation for a specified term of employment;
- No tax "gross-ups";
- Limited executive perquisites;
- Clawback provisions that result in a significant portion of compensation earned being subject to recapture and/or forfeiture; and
- No golden parachute payments or other change in control provisions in any of our compensation or benefit programs.

Chief Executive Officer Compensation

Mr. Layton's compensation consists solely of an annual Base Salary of $600,000, a level established by FHFA. He does not participate in the Executive Compensation Program and therefore has no compensation subject to either corporate or individual performance, nor is his compensation subject to recapture as discussed further in "— Recapture and Forfeiture Agreement." Mr. Layton is, however, eligible to participate in all other employee benefit plans offered to Freddie Mac's other senior executives pursuant to the terms of those plans.

Elements of Target Total Direct Compensation (Target TDC)

Compensation under the Executive Compensation Program for the NEOs other than Mr. Layton consists solely of salary with two components — Base Salary and Deferred Salary — which are described in the table below.

Element of Compensation	Description	Primary Compensation Objective	Key Features
Base Salary	Earned and paid each bi-weekly pay period	To provide a fixed level of compensation to each NEO for the responsibility level of his/her position	Cannot exceed $500,000 per year, except as approved by FHFA
Deferred Salary	Fixed Deferred Salary is earned each bi-weekly pay period. The amount earned each quarter is paid on the last business day of the corresponding quarter of the following year, referred to as the Approved Payment Schedule	To encourage executive retention	Equal to Target TDC less Base Salary and At-Risk Deferred Salary
	At-Risk Deferred Salary is earned and paid in the same manner as Fixed Deferred Salary, but is subject to reduction based on corporate and individual performance	To encourage achievement of corporate and individual performance goals	Equal to 30% of Target TDC. Half of At-Risk Deferred Salary is subject to reduction based on Conservatorship Scorecard performance, and half is subject to reduction based on a combination of corporate performance against Complementary Corporate Goals and individual performance. The objectives against which 2013 corporate performance was measured

are described in "At-Risk Deferred Salary Based on Conservatorship Scorecard Performance" and "At-Risk Deferred Salary Based on Complementary Corporate Goals and Individual Performance."

See Other Executive Compensation Considerations — Effect of Termination of Employment for more information on the effect of a termination of employment, including a discussion of the timing and payment of any unpaid portion of Deferred Salary upon all types of termination events.

Performance Measures for the Performance-Based Elements of Compensation

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The performance measures for At-Risk Deferred Salary, together with a description of the assessment of actual performance against such measures, are presented below in “Determination of Actual 2013 Compensation — At-Risk Deferred Salary Based on Conservatorship Scorecard Performance” and “— At-Risk Deferred Salary Based on Complementary Corporate Goals and Individual Performance.” These performance measures were chosen because they reflected our 2013 priorities during conservatorship.

Determination of 2013 Target TDC for NEOs

Role of Compensation Consultants

As part of the annual process to determine the Target TDC for each of the NEOs other than Mr. Layton, whose compensation is fixed as described in “— Chief Executive Officer Compensation,” the Compensation Committee receives guidance from Meridian Compensation Partners, LLC (Meridian), its independent compensation consultant. In addition to the annual process to determine Target TDC, Meridian provides guidance to the Compensation Committee during the course of the year on other executive compensation matters.

Meridian has not provided the Compensation Committee with any non-executive compensation services, nor has the firm provided any consulting services to our management. Additionally, during 2013, the Committee reviewed Meridian's independence based on the factors outlined in Rule 10C-1(b)(4) under the Exchange Act and determined that Meridian continues to be independent.

2013 Comparator Group Companies

The Compensation Committee annually evaluates each senior executive’s Target TDC in relation to the compensation of executives in comparable positions at companies that are either in a similar line of business or are otherwise comparable for purposes of recruiting and retaining individuals with the requisite skills and capabilities. We refer to this group of companies as the Comparator Group.

When there is either no reasonable match or insufficient data from the Comparator Group for a position, or if Meridian believes that additional data sources would strengthen the analysis of competitive market compensation levels, the Compensation Committee may use alternative survey sources.

Prior to the Compensation Committee’s review to determine the Comparator Group companies to be used to establish 2013 Target TDC, FHFA recommended that Freddie Mac and Fannie Mae align their Comparator Groups so that consistent compensation data is used by both companies for the same or similar senior officer positions. Representatives of the two companies and their independent compensation consultants identified a group of companies to be used by both us and Fannie Mae as the 2013 Comparator Group. The 2013 Comparator Group included five new companies — Ally Financial, AIG, BB&T, Fifth Third Bancorp, and Regions Financial — and excluded the three credit card issuers — American Express, MasterCard, and Visa — that were included in the 2012 Comparator Group. Additionally, we are included in our own Comparator Group to ensure that both we and Fannie Mae use identical data for compensation benchmarking.

The Comparator Group consisted of the following companies for 2013:

Allstate	Fannie Mae	PNC
Ally Financial	Fifth Third Bancorp	Prudential
AIG	Freddie Mac	Regions Financial
Bank of America*	The Hartford	State Street
Bank of New York Mellon	JPMorgan Chase*	SunTrust
BB&T	MetLife	U.S. Bancorp
Capital One	Northern Trust	Wells Fargo*
Citigroup*		

* Only mortgage or real estate division-level compensation data from these diversified banking firms may be utilized where available and appropriate for the position being benchmarked.

The Compensation Committee has determined, in consultation with FHFA and Fannie Mae, that these same companies will comprise the 2014 Comparator Group.

Establishing Target TDC

For 2013, consistent with both 2012 and 2011, annual Target TDC adjustments were limited by FHFA to generally occur only when an executive was promoted or experienced a significant change in responsibilities. In addition, FHFA's view is that the compensation for our senior officers, in the aggregate, should be positioned closer to the 25th percentile of the competitive market, rather than our practice prior to entering conservatorship, which generally was to target compensation, in the aggregate, at the 50th percentile of the competitive market.

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The Compensation Committee developed its 2013 Target TDC recommendations for the NEOs by reviewing data from the Comparator Group and, as appropriate, alternative survey sources. For Messrs. Kari, Lowman, Mackey and McDavid, the Compensation Committee reviewed competitive market data solely from the Comparator Group. For Mr. Weiss, our EVP-Chief Administrative Officer, no reasonable match was available in either the Comparator Group or one of the alternative survey sources due to the unique nature of his responsibilities. As a result, the compensation level for his role was evaluated by comparing the scope and breadth of his responsibilities with those of other executive-level positions at the company.

The Compensation Committee's 2013 Target TDC recommendation for each of the NEOs other than Mr. Layton was reviewed and approved by FHFA. The following table sets forth the components of 2013 Target TDC for each of our NEOs and the percentage change, if any, compared to 2012 Target TDC.

Table 76 — 2013 Target TDC

Named Executive Officer	2013 Target TDC (Annualized) Base Salary	Fixed Deferred Salary	At-Risk Deferred Salary	Target TDC	Percent Change v. Prior Year
Donald H. Layton	$600,000	$—	$—	$600,000	0%
James G. Mackey	500,000	1,600,000	900,000	3,000,000	N/A
Ross J. Kari	675,000	1,530,000	945,000	3,150,000	0%
David B. Lowman	500,000	1,600,000	900,000	3,000,000	N/A
William H. McDavid	500,000	1,320,000	780,000	2,600,000	0%
Jerry Weiss	495,000	891,000	594,000	1,980,000	0%

Determination of Actual 2013 Compensation

As discussed more fully below, the Compensation Committee and FHFA considered our achievements in pursuing our primary business objectives, as well as other factors, in determining the funding levels for the following elements of compensation in 2013.

At-Risk Deferred Salary Based on Conservatorship Scorecard Performance

Half of each NEO's 2013 At-Risk Deferred Salary, or 15% of Target TDC, was subject to reduction based on the company's performance, as assessed by FHFA, against the objectives in the 2013 Conservatorship Scorecard. Following the end of the year, FHFA independently assessed the company's 2013 performance against the Conservatorship Scorecard, taking into consideration the following:

- The quality, thoroughness, creativity, effectiveness, and timeliness of our work products;
- Collaboration and cooperation with FHFA, Fannie Mae and the industry; and
- The extent to which the outcomes of our activities support a competitive secondary mortgage market with lower barriers to entry and exit of participants.

In particular, FHFA noted the following specific factors in assessing our performance against the Conservatorship Scorecard:

- The company's accomplishment of the vast majority of Conservatorship Scorecard objectives, scoring 100% on most of its objectives;
- The thought leadership and creativity provided by Freddie Mac personnel involved in the risk sharing transactions; and
- The on-time delivery of the integration plan for the Common Securitization Platform.

Based on the company's performance against the Conservatorship Scorecard, including these considerations, FHFA determined that the funding level for this portion of At-Risk Deferred Salary should be 97%. The table below presents the objectives and FHFA's assessment of our achievement against those objectives.

Table 77 — Achievement of Conservatorship Scorecard Performance Measures

Performance Goals	FHFA's Summary of Performance

1	Build a new infrastructure for the secondary mortgage market (30%)	
	Common Securitization Platform (CSP) In conjunction with FHFA, continue the foundational development of the CSP: • Establish initial ownership and governance structure for the CSP. Assign dedicated resources and establish independent location site for the CSP Team. • Develop the design, scope and functional requirements for the CSP's modules and develop the initial business operational process model.	All goals were achieved with the following exceptions, which will be carried over to the 2014 Scorecard: • Completion of functional requirements • Development of a servicer integration plan

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	• Develop multi-year plans, inclusive of CSP build, test and deployment phases, and the Enterprises' related system and operational changes. • Develop and begin testing the CSP. • Support FHFA progress reports to the public on the design, scope and functional requirements. Update documents based on feedback received.	
	Contractual Disclosure Framework (CDF) Continue the development of the CDF to meet the requirements for investors in mortgage securities and credit risk: • Identify and develop standards in data (i.e., leveraging the work underway in the Uniform Mortgage Data Program), disclosure and Seller/Servicer contracts. • Develop and execute work plans for alignment activities between the Enterprises with regard to the common standards and creation of legal/contractual documents to facilitate varied credit risk transfer transactions. • Engage with the public in a variety of forums to seek feedback and incorporate revisions. • Support FHFA progress reports to the public.	All goals were achieved in accordance with roadmaps, milestones and guidance from FHFA
	Uniform Mortgage Data Program (UMDP) • Complete identification and development of data standards for Uniform Mortgage Servicing Data (UMSD), leveraging the Mortgage Industry Standards Maintenance Organization process. Establish timeline to implement data collection and use of UMSD data in enhanced disclosures and risk management strategy,	All goals (including, for the fourth quarter, an alternative goal established by FHFA as discussed below) were achieved.
	• Develop plan to standardize origination data (e.g., HUD-1 and Uniform Residential Loan Application) as well as timeline for implementation.	An alternative milestone to provide a plan for publication of a timeline for the announcement and collection of standardized closing disclosure data was achieved. This alternative milestone was established by FHFA due to a delay in the issuance of the final rule and closing disclosure form by the Consumer Financial Protection Bureau.
2	Contract the Enterprises dominant presence in the marketplace while simplifying and shrinking certain operations (by line of business) (50%)	
	Single Family - Each Enterprise will demonstrate the viability of multiple types of risk transfer transactions involving single family mortgages with at least $30 billion of unpaid principal balances in 2013. (Risk transfer transactions of less than $10 billion receive no credit toward this goal, while results between $10 billion and $30 billion will receive partial credit.)	All goals related to risk transfer transactions were achieved, demonstrating the viability of multiple types of risk transfer transactions involving single-family mortgages.
	Multi-Family - Reduce the UPB amount of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of the Enterprises' retained risk. (Reductions between 0% and 10% will receive partial credit.)	The goal was achieved

	Retained Portfolio - Reduce the December 31, 2012 retained portfolio balance (exclusive of agency securities) by selling 5% of assets. (Sales between 0% and 5% will receive partial credit.)	The goal was achieved

Scoring Note: In assessing results for these measures under Performance Goal 2, FHFA considered changes in market and regulatory conditions, and whether the transactions:

- Were economically sensible;
- Were operationally well-controlled;
- Involved a meaningful transference of credit risk; and
- Were transparent to the marketplace.

FHFA also assessed whether the utility of the transaction furthered the long-term strategic goal of risk transfer, in judging whether to award credit for individual transactions in meeting the totals set forth for each measure.

3	Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages (20%)	
•	Adapt quickly to statutory, regulatory, and market changes through appropriate modifications and/or enhancements to loss mitigation and refinance options.	The goals were substantially achieved. However, in several instances, the company's analysis was delayed or less complete than desired. Additionally, program reporting for streamlined modifications was less robust than desired. Certain initiatives are ongoing and will be carried over to the 2014 Scorecard.
•	Enhance post-delivery quality control practices and transparency associated with new representation and warranty framework.	All goals were achieved
•	Complete representation and warranty demands for pre-conservatorship loan activity.	The goal was substantially achieved
•	Develop counterparty risk management standards for mortgage insurers that include uniform master policies and eligibility requirements.	The goals related to both mortgage insurance master policy eligibility and mortgage insurer eligibility were achieved
•	Incorporate policies related to lender placed insurance (LPI) within the Servicing Alignment initiative.	All goals were achieved. Additionally, the company is on schedule with an ongoing obligation to work with FHFA to identify additional LPI cost savings.

At-Risk Deferred Salary Based on Complementary Corporate Goals and Individual Performance

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The other half of each NEO's At-Risk Deferred Salary, also equal to 15% of Target TDC, was subject to reduction based on a combination of the company's performance against the Complementary Corporate Goals and their individual performance. The six Complementary Corporate Goals were established to drive how we manage and improve the commercial aspects of our business and are intended to complement the FHFA Strategic Plan and Conservatorship Scorecard. Certain of the individual performance objectives for the NEOs were either Conservatorship Scorecard objectives or Complementary Corporate Goals or directly supported their achievement. No weightings were assigned to the Complementary Corporate Goals. As a result, it was necessary for the Compensation Committee to apply judgment in determining the overall level of performance. In making its determination, the Committee primarily considered the fact that the vast majority of the Complementary Corporate Goals were achieved.

The Compensation Committee therefore determined that no reduction should be applied to this portion of At-Risk Deferred Salary.

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Table 78 — Achievement of Complementary Corporate Goals

Complementary Corporate Goal and Specific Criteria	Assessment of Performance
People - Make Freddie Mac a fulfilling place to work • Achieve culture change goals at all levels • Invest in people to strengthen commitment • Enhance diversity efforts targeting higher-level positions	While we met or exceeded all but one of the external benchmarks related to the employee survey used to measure success for this goal, we did not achieve the desired level of increased positive responses for several of the survey questions.
Customers - Substantially enhance the customer experience • Strengthen market presence and relevance • Increasingly focus on five distinct customer sets, both direct and indirect • Address customer dissatisfiers • Focus on service	With one exception, we achieved or exceeded all aspects of this goal, which included completing a process for identifying and addressing causes of dissatisfaction among our key customers. We also established measurable service level standards designed to have a significant positive impact on external customer service. These actions were borne out by increased customer satisfaction index scores among both single-family and multifamily customers.
Enhanced Mission - Help people own, rent, and stay in their homes • Continue to provide liquidity • Enhance our reputation by considering the impact of our actions	All elements of this goal were either met or exceeded, including those related to HARP purchases, loan modifications, short sales, REO dispositions in repaired condition and cases resolved with a non-foreclosure solution.
Financial Performance - Enhance business capabilities and performance to position the company for financial success in a competitive future • Improve single-family profitability and market presence • Maintain profitable and quality multifamily business • Enhance retained portfolio value and market presence • Strengthen our expense management discipline • Sharpen our decision-making capabilities	With one exception, all elements of this goal were either met or exceeded. While we succeeded in strengthening our expense management discipline, our general and administrative expenses were higher than anticipated due primarily to FHFA-driven activity, specifically private label securities litigation and development of the Common Securitization Platform.
Risk Management - Take responsibility for risk management to make it a competitive advantage	All but one element of this goal was either met or exceeded. While closure of significant deficiencies has far outpaced identification of new issues, we did not achieve timely remediation of all open issues.

• Reinforce risk ownership by instilling “everyone is a risk manager” • Address risks and resolve findings in a timely manner by being proactive • Make informed risk-reward decisions	
Execution - Improve the urgency and quality of execution • Focus on quality • Increase decisiveness	While we established and executed internal service-level agreements, we did not do so by the date set by management. All other aspects of this goal were either met or exceeded, including: • Developing customer satisfaction scorecards; • Delivering projects managed by the Enterprise Project Management Office on schedule and on budget; and • Conducting more than the planned number of process improvement reviews to identify opportunities to reduce bureaucracy or improve the speed of decision-making.

The Committee then assessed the individual performance of each NEO, receiving input from Mr. Layton. The Committee used its judgment to determine the reduction, if any, for each NEO. In each case, the Compensation Committee's determination was consistent with Mr. Layton's recommendation. FHFA reviewed and approved these determinations.

Each NEO's individual performance and the reduction, if any, to this portion of his At-Risk Deferred Salary, is discussed below. The relatively narrow spread of the individual differentiation between the largest and smallest reductions for the portion of At-Risk Deferred Salary based on performance against the Complementary Corporate Goals and individual performance (expressed as a percentage of each NEO’s target) reflects the Compensation Committee's attempt to balance the contributions of each NEO toward the high level of performance against the Complementary Corporate Goals, with the need to differentiate between levels of individual performance.

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Mr. Layton's performance is not discussed below because his compensation does not include Deferred Salary.

James G. Mackey, Executive Vice President – Chief Financial Officer. The Compensation Committee determined that the payment to Mr. Mackey for the portion of his At-Risk Deferred Salary that was subject to reduction based on Complementary Corporate Goals and individual performance would be $64,772. This amount is equal to his target for the portion of the year he was employed. Upon joining the company on November 11, 2013, Mr. Mackey focused on the year-end financial process, identifying strategic changes that will enable the company to operate more effectively and efficiently, and successfully transitioning into his new role. In addition, we generally do not perform a full assessment of performance – or reduce elements of compensation based on individual performance – for employees who join the company on or after September 1 due to the difficulty associated with evaluating new employee performance over fewer than four full months of service. Accordingly, the CEO and the Compensation Committee determined there should be no reduction to this element of Mr. Mackey’s At-Risk Deferred Salary.

Ross J. Kari, Former Executive Vice President – Chief Financial Officer. The Compensation Committee determined that the payment to Mr. Kari for the portion of his At-Risk Deferred Salary that was subject to reduction based on Complementary Corporate Goals and individual performance would be $448,875, compared with his target of $472,500. In recommending and determining this amount, the CEO and the Compensation Committee considered that, during Mr. Kari’s tenure as our CFO – which ended in November 2013 – the Finance Division generally met or exceeded the majority of its goals. These included issuing timely and accurate financial statements, coordinating the cross-divisional effort that ultimately resulted in the release of the valuation allowance associated with our deferred tax assets, supporting business units in the production of management reports for business performance reviews, implementing numerous process improvements throughout the Finance Division to enhance efficiency, and improving processes for remediating control issues.

David B. Lowman, Executive Vice President – Single-Family Business. The Compensation Committee determined that the payment to Mr. Lowman for the portion of his At-Risk Deferred Salary that was subject to reduction based on Complementary Corporate Goals and individual performance would be $294,886. This amount is equal to his target for the portion of the year he was employed. In recommending and determining this amount, the CEO and the Compensation Committee considered the impact Mr. Lowman had, since being hired in May 2013, in the accomplishment of the 2013 Conservatorship Scorecard objectives and Complementary Corporate Goals for which the Single Family Division was primarily responsible. He personally led several representation and warranty settlement negotiations and successfully organized resources to quickly and effectively reduce the volume of impaired loans in the Legacy single-family guarantee book. More broadly, he provided strong leadership that was instrumental in enabling the Single Family Business to accomplish a variety of significant objectives. Specifically, Mr. Lowman’s strong customer focus and problem-solving abilities were instrumental in the business executing on its plan to significantly improve customer service levels and increase market share across multiple customer segments. Those qualities were also evident in the business's successful execution of three risk transfer transactions which we believe provide substantial credit risk protection for $57.8 billion of loans in our New single-family book.

William H. McDavid, Executive Vice President – General Counsel and Corporate Secretary. The Compensation Committee determined that the payment to Mr. McDavid for the portion of his At-Risk Deferred Salary that was subject to reduction based on Complementary Corporate Goals and individual performance would be $390,000. This amount is equal to his target. In recommending and determining this amount, the CEO and the Compensation Committee considered Mr. McDavid’s achievements and leadership of the Legal Division in 2013. In addition to serving as the primary liaison to our Board of Directors and providing high-quality legal advice to the rest of the organization, Mr. McDavid personally supervised a variety of demanding and complex legal issues during 2013. Most notably, the Legal Division played a critical role in negotiating $7.8 billion in various legal settlements. Mr. McDavid also implemented several operational and organizational changes in the Legal Division that increased its effectiveness and efficiency. Additionally, the division led an effort that resulted in the streamlining and modernization of internal company policies.

Jerry Weiss, Executive Vice President – Chief Administrative Officer. The Compensation Committee determined that the payment to Mr. Weiss for the portion of his At-Risk Deferred Salary that was subject to reduction based on Complementary Corporate Goals and individual performance would be $282,150, compared with his target of

$297,000. In recommending and determining this amount, the CEO and the Compensation Committee considered the positive impact that Mr. Weiss's leadership of the Chief Administrative Officer organization had on the accomplishment of the 2013 Conservatorship Scorecard objectives and Complementary Corporate Goals. In addition to the role Mr. Weiss has played as the company's primary senior executive liaison to FHFA and Treasury, he also led the company's efforts that resulted in significant progress on two major Conservatorship Scorecard objectives – the Common Securitization Platform and the Contractual Disclosure Framework. Mr. Weiss also provided leadership in coordinating the company's strategy and policy activities related to the future state of the GSEs. For the Complementary Corporate Goals, Mr. Weiss guided his portfolio of activities to execute in a more strategic and efficient manner, which enhanced their enterprise-wide support for a number of business initiatives, as well as reduced costs.

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The following chart compares the target and actual amounts of 2013 Deferred Salary for each NEO other than Mr. Layton. The actual amount earned is scheduled to be paid in equal quarterly installments on the last business day of each calendar quarter of 2014.

Table 79 — 2013 Deferred Salary

	Target 2013 Deferred Salary				Actual 2013 Deferred Salary			
		At-Risk				At-Risk		
Named Executive Officer	Fixed	Conservatorship Scorecard	Complementary Goals/ Individual	Total Target Deferred Salary	Fixed	Conservatorship Scorecard	Complementary Goals/ Individual	Total Actual Deferred Salary
Mr. Mackey[1]	$230,303	$64,773	$ 64,772	$359,848	$230,303	$62,830	$ 64,772	$357,905
Mr. Kari	1,530,000	472,500	472,500	2,475,000	1,530,000	458,325	448,875	2,437,200
Mr. Lowman[1]	1,048,485	294,887	294,886	1,638,258	1,048,485	286,040	294,886	1,629,411
Mr. McDavid	1,320,000	390,000	390,000	2,100,000	1,320,000	378,300	390,000	2,088,300
Mr. Weiss	891,000	297,000	297,000	1,485,000	891,000	288,090	282,150	1,461,240

(1) Amounts for Messrs. Lowman and Mackey are pro-rated based on their dates of hire in May and November, 2013, respectively.

Written Agreements Relating to Our NEOs' Employment

We entered into letter agreements with each of our NEOs in connection with their hiring, as described further below. Although the letter agreements set forth specific initial levels of Base Salary and, where applicable, Target TDC, the compensation of each NEO is subject to change by FHFA and, other than in the case of Mr. Layton, is subject to the terms of the Executive Compensation Program.

We also entered into restrictive covenant and confidentiality agreements with each of our NEOs in connection with their hiring. The non-competition and non-solicitation provisions included in the restrictive covenant and confidentiality agreements are described in "Potential Payments Upon Termination of Employment or Change-in-Control."

Executive Compensation Program participants are not currently entitled to a guaranteed level of severance benefits upon any type of termination event. For additional information on compensation and benefits payable in the event of a termination of employment, see "Potential Payments Upon Termination of Employment or Change-in-Control" below.

Mr. Layton

We entered into: (a) a letter agreement; and (b) a restrictive covenant and confidentiality agreement with Mr. Layton in connection with his employment as our Chief Executive Officer. The terms of Mr. Layton's letter agreement provide him with an annual Base Salary of $600,000 and the opportunity to participate in all employee benefit plans offered to Freddie Mac's senior executive officers pursuant to the terms of these plans. Copies of Mr. Layton's letter agreement and restrictive covenant and confidentiality agreement were filed as Exhibits 10.1 and 10.2, respectively, to our Current Report on Form 8-K filed on May 10, 2012.

Mr. Mackey

We entered into: (a) a letter agreement; and (b) a restrictive covenant and confidentiality agreement with Mr. Mackey in connection with his employment as our CFO. The terms of Mr. Mackey's letter agreement provide him with the following during his employment with Freddie Mac, subject to the terms of the Executive Compensation Program: an annual Base Salary of $500,000; Target TDC opportunity of $3,000,000, which consists of the Base Salary of $500,000 and Deferred Salary of $2,500,000; and the opportunity to participate in all employee benefit plans offered to Freddie Mac's senior executive officers pursuant to the terms of these plans.

Mr. Mackey's letter agreement also provided for a cash sign-on award of $960,000 in recognition of the forfeited compensation at his prior employer and commuting expenses during the first several months of employment. This award will be paid in installments during Mr. Mackey’s first year of employment with us, as follows: (i) first installment: $510,000 on the same date on which Mr. Mackey received his first payment of Base Salary; (ii) second installment: $225,000 on the six-month anniversary of his hire date; and (iii) third installment: $225,000 on the one-year anniversary of his hire date. If Mr. Mackey is not an employee of Freddie Mac on an installment payment date, the installment will be forfeited. Additionally, each installment will be subject to repayment in the event that, prior to the first anniversary of an installment payment date, Mr. Mackey terminates his employment with Freddie Mac for any reason or Freddie Mac terminates his employment due to the occurrence of any of the Forfeiture Events described in his Recapture and Forfeiture Agreement. Copies of Mr. Mackey's letter agreement and restrictive covenant and confidentiality agreement were filed as Exhibits 10.1 and 10.2, respectively, to our Current Report on Form 8-K filed on September 30, 2013.

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Mr. Lowman

We entered into: (a) a letter agreement; and (b) a restrictive covenant and confidentiality agreement with Mr. Lowman in connection with his employment as our Executive Vice President - Single-Family Business. The terms of Mr. Lowman's letter agreement provide him with the following during his employment with Freddie Mac, subject to the terms of the Executive Compensation Program: an annual Base Salary of $500,000; Target TDC opportunity of $3,000,000, which consists of the Base Salary of $500,000 and Deferred Salary of $2,500,000; and the opportunity to participate in all employee benefit plans offered to Freddie Mac's senior executive officers pursuant to the terms of these plans.

Mr. Lowman's letter agreement also provided for a cash sign-on award of $150,000 for commuting expenses during the first year of employment. Under the terms of the letter agreement, Mr. Lowman is required to repay a pro-rata portion of the sign-on award he received upon his hire in May 2013 in the event that, prior to the first anniversary of his hire date, he terminates his employment for any reason or Freddie Mac terminates his employment due to the occurrence of any of the Forfeiture Events described in his Recapture and Forfeiture Agreement. Copies of Mr. Lowman's letter agreement and restrictive covenant and confidentiality agreement are filed as Exhibits 10.48 and 10.49, respectively, to this Annual Report on Form 10-K.

Mr. McDavid

We entered into: (a) a letter agreement; and (b) a restrictive covenant and confidentiality agreement with Mr. McDavid in connection with his employment as our Executive Vice President - General Counsel and Corporate Secretary. The terms of Mr. McDavid's letter agreement provide him with the following during his employment with Freddie Mac, subject to the terms of the Executive Compensation Program: an annual Base Salary of $500,000; Target TDC opportunity of $2,600,000, which consists of the Base Salary of $500,000 and Deferred Salary of $2,100,000; and the opportunity to participate in all employee benefit plans offered to Freddie Mac's senior executive officers pursuant to the terms of these plans. Copies of Mr. McDavid's letter agreement and restrictive covenant and confidentiality agreement were filed as Exhibits 10.1 and 10.2, respectively, to our Current Report on Form 8-K filed on July 9, 2012.

Messrs. Kari and Weiss

We do not have any continuing obligations under the letter agreements that were entered into with Messrs. Kari or Weiss at the time of their employment. The restrictive covenant and confidentiality agreements entered into by Messrs. Kari and Weiss were filed, respectively, as Exhibit 10.9 to our Quarterly Report on Form 10-Q filed on November 6, 2009 and Exhibit 10.49 to our Annual Report on Form 10-K filed on March 9, 2012.

Recapture and Forfeiture Agreement

Freddie Mac has adopted, with the approval of FHFA, the Recapture and Forfeiture Agreement (the "Recapture Agreement"). An NEO's agreement to the Recapture Agreement is a condition of participation in the Executive Compensation Program. We entered into a Recapture Agreement with each of our NEOs other than Mr. Layton. We did not enter into a Recapture Agreement with Mr. Layton because he only receives Base Salary, which is not subject to recapture.

The Recapture Agreement provides for the recapture and/or forfeiture of Deferred Salary earned, paid or to be paid pursuant to the terms of the Executive Compensation Program if, after providing the required notice, our Board of Directors, in the good faith exercise of its sole discretion, determines that a Forfeiture Event has occurred. The Forfeiture Events and the Deferred Salary subject to recapture and/or forfeiture are described below.

- Materially Inaccurate Information

  Forfeiture Event: The NEO has earned or obtained the legally binding right to a payment of Deferred Salary based on materially inaccurate financial statements or any other materially inaccurate performance measure.

  Compensation Subject to Recapture and/or Forfeiture: Any Deferred Salary in excess of the amount that the Board of Directors determines would likely have been otherwise earned using accurate measures during the two years prior to the Forfeiture Event.

- Termination for Felony Conviction or Willful Misconduct

  Forfeiture Event: The NEO's employment is terminated in any of the following circumstances:

Termination of employment because the NEO is convicted of, or pleads guilty or nolo contendere to, a felony;
Subsequent to termination of employment, the NEO is convicted of, or pleads guilty or nolo contendere to, a felony, based on conduct occurring prior to termination, and within one year of such conviction or plea, the Board of Directors determines that such conduct is materially harmful to Freddie Mac.
Termination of employment because, or within two years of termination, the Board of Directors determines that, the NEO engaged in willful misconduct in the performance of his or her duties that was materially harmful to Freddie Mac.

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Compensation Subject to Recapture and/or Forfeiture: Any Deferred Salary earned during the two years prior to the date that the NEO is terminated, any Deferred Salary scheduled to be paid within two years after termination and any cash payment made or to be made as consideration for any release of claims agreement.

- Gross Neglect or Gross Misconduct

Forfeiture Event: The NEO's employment is terminated because, in carrying out his or her duties, the NEO engages in conduct that constitutes gross neglect or gross misconduct that is materially harmful to Freddie Mac, or within two years after the NEO's termination of employment, the Board of Directors determines that the NEO, prior to his or her termination, engaged in such conduct.

Compensation Subject to Recapture and/or Forfeiture: Any Deferred Salary paid at the time of termination or subsequent to the date of termination, including any cash payment made as consideration for any release of claims agreement.

- Violation of a Post-Termination Non-Competition Covenant

- Forfeiture Event: The NEO violates a post-termination non-competition covenant set forth in the restrictive covenant and confidentiality agreement in effect when a payment of Deferred Salary is scheduled to be made.

- Compensation Subject to Recapture and/or Forfeiture: 50% of the Deferred Salary paid during the twelve months immediately preceding the violation and 100% of any unpaid Deferred Salary.

Under the Recapture Agreement, the Board of Directors has discretion to determine the appropriate dollar amount, if any, to be recaptured from and/or forfeited by the NEO, which is intended to be the gross amount of compensation in excess of what Freddie Mac would have paid the NEO had Freddie Mac taken the Forfeiture Event into consideration at the time such compensation decision was made.

A copy of the form of the Recapture Agreement was filed as Exhibit 10.3 to our Current Report on Form 8-K filed on June 12, 2013. The Recapture Agreement applicable to compensation earned in 2012 was filed as Exhibit 10.3 to our quarterly report on Form 10-Q filed on November 6, 2012 and the Recapture Policy applicable to compensation earned in 2011 was filed as Exhibit 10.4 to our Current Report on Form 8-K filed on December 24, 2009.

The following additional event is applicable only to the CEO and CFO, to the extent they have compensation subject to recapture.

- Accounting Restatement Resulting from the Executive's Misconduct - If misconduct by the CEO and/or CFO necessitates the preparation of an accounting restatement due to material non-compliance with financial reporting requirements, the compensation subject to recapture will be determined in accordance with Section 304 of the Sarbanes-Oxley Act.

Indemnification Agreements

We have also entered into indemnification agreements with certain of our current and former directors and executive officers, each an indemnitee, including each of our NEOs. With respect to indemnification agreements entered into with executive officers in or after August 2011, the form of agreement has been revised to provide that indemnification rights under the agreement would terminate if and when the executive officer remained with Freddie Mac after ceasing to report directly to the CEO with respect to any claims arising from matters occurring after the officer was no longer a direct CEO report. Similar indemnification rights would continue to be available to such executive officers under the Bylaws going forward. The indemnification agreements provide that we will indemnify the indemnitee to the fullest extent permitted by our Bylaws and Virginia law. This obligation includes, subject to certain terms and conditions, indemnification against all liabilities and expenses (including attorneys' fees) actually and reasonably incurred by the indemnitee in connection with any threatened or pending action, suit or proceeding, except such liabilities and expenses as are incurred because of the indemnitee's willful misconduct or knowing violation of criminal law. The indemnification agreements provide that if requested by the indemnitee, we will advance expenses, subject to repayment by the indemnitee of any funds advanced if it is ultimately determined that the indemnitee is not entitled to indemnification. The rights to indemnification under the indemnification agreements are not exclusive of any other right the indemnitee may have under any statute, agreement or otherwise. Our obligations under the indemnification agreements will continue after the indemnitee is no longer a director or officer of the company with respect to any possible claims based on the fact that the indemnitee was a director or officer, and the indemnification agreements will remain in effect in the event the conservatorship is terminated. The indemnification agreements also provide that indemnification for actions instituted by FHFA will be governed by the standards set forth in FHFA's Notice of Proposed Rulemaking, transmitted to the Federal Register on November 6, 2008, implementing 12 U.S.C. 4518. That proposed rulemaking has not yet been finalized. In the preamble to FHFA's final rule on Golden Parachute Payments, published in the Federal Register on January 28, 2014, FHFA indicated that a final rule on indemnification payment provisions remains under review.

Other Executive Compensation Considerations

Effect of Termination of Employment

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Under the Executive Compensation Program, Base Salary ceases upon an NEO's termination of employment, regardless of the reason for such termination. The timing and payment of any unpaid portion of Deferred Salary is based upon the reason for termination, which is discussed in "Potential Payments Upon Termination of Employment or Change-in-Control — Potential Payments Under the Executive Compensation Program."

Perquisites

We believe that perquisites should be a minimal part of the compensation package for our NEOs. Total annual perquisites for any NEO cannot exceed $25,000 without FHFA approval, and we do not provide a gross-up to cover any taxes due on the perquisite itself. The only perquisite provided to our NEOs during 2013 was reimbursement for assistance with personal financial planning, tax planning, and/or estate planning, up to an annual maximum benefit that varies by position.

Supplemental Executive Retirement Plan

In 2013, our NEOs were eligible to participate in our Supplemental Executive Retirement Plan, or SERP. The SERP is designed to provide participants with the full amount of benefits to which they would have been entitled under our Pension Plan and Thrift/401(k) Savings Plan if those plans: (a) were not subject to certain dollar limits under the Internal Revenue Code; and (b) did not exclude from "compensation" Deferred Base Salary prior to 2012 and amounts deferred under our Executive Deferred Compensation Plan (discussed below).

Effective January 1, 2012, eligibility for the "Pension SERP Benefit" (as defined in the SERP) is limited, and Executives (as defined in the SERP) whose employment with the company commenced after December 31, 2011 (or who are rehired after that date) are not eligible for the Pension SERP Benefit.

On August 27, 2012, the SERP was amended, with approval of FHFA. Under this amendment, which became effective as of January 1, 2012, benefits under the SERP are limited to two times a participant's Base Salary in any calendar year in which the participant's compensation is covered by the Executive Compensation Program.

On October 24, 2013, the Company received a directive from FHFA to terminate the Pension Plan as well as the Pension SERP Benefit and the pre-2005 Thrift/401(k) components (together, the "Terminating SERP") of the SERP. No Pension SERP Benefit accruals or Pension Plan accruals will occur after December 31, 2013. The accruals associated with the Terminating SERP will be distributed within twelve to twenty-four months of October 24, 2013.

For additional information regarding this benefit see "Compensation Tables" below.

Stock Ownership, Hedging and Pledging Policies

In November 2008, FHFA approved the suspension of our stock ownership guidelines, because we had ceased paying our executives stock-based compensation. Also, the Purchase Agreement prohibits us from issuing any shares of our equity securities without the prior written consent of Treasury. The suspension of stock ownership requirements is expected to continue through the conservatorship and until such time that we resume granting stock-based compensation.

All employees, including our NEOs, are prohibited from purchasing and selling derivative securities related to our equity securities, including warrants, puts and calls, or from dealing in any derivative securities other than pursuant to our stock-based benefit plans. All directors and employees (including our NEOs) are prohibited from transacting in options (other than options granted by us) or other hedging instruments as specified in our Insider Trading Policy. In addition, all directors and employees (including our NEOs) are prohibited from holding our securities in a margin account or pledging our securities as collateral for a loan.

Section 162(m) Limits on the Tax Deductibility of Our Compensation Expenses

Section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount that a company may annually deduct for compensation to its CEO and certain other NEOs, unless, among other things, the compensation is "performance-based," as defined in section 162(m). Given the conservatorship and the desire to maintain flexibility to promote our corporate goals, At-Risk Deferred Salary is not structured to qualify as performance-based compensation under section 162(m).

Compensation Committee Interlocks and Insider Participation

None of the members of the Board of Directors who served on the Compensation Committee during fiscal year 2013 were our officers or employees or had any relationship with us that would be required to be disclosed by us under Item 407(e)(4) of Regulation S-K.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

This report is respectfully submitted by the members of the Compensation Committee of the Board.

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Anthony A. Williams, Chairman
Steven W. Kohlhagen
Christopher S. Lynch
Sara Mathew
Saiyid T. Naqvi

Compensation and Risk

With respect to 2013, our management conducted an assessment of our compensation plans and programs that were in place during the year and that were applicable to employees at all levels, including the Executive Compensation Program. The purpose of the assessment was to determine whether the design and operation of our compensation plans create incentives for employees to take inappropriate risks that are reasonably likely to have a material adverse effect on us. The assessment was conducted by members of our enterprise risk management and human resources teams.

The review included an evaluation of:

- the mix of fixed and at-risk compensation;
- eligibility for participation in compensation programs;
- the process by which Target TDC levels are established;
- the process for establishing performance objectives and for evaluating performance against those objectives; and
- the involvement of the Compensation Committee and FHFA in the compensation process.

The assessment was discussed with the Compensation Committee in December 2013. Management's conclusion, with which the Compensation Committee concurred, is that our compensation policies and practices in place during 2013 do not create risks that are reasonably likely to have a material adverse effect on us.

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Compensation Tables

The following tables set forth compensation information for our NEOs: our CEO, CFO, former CFO and the three other most highly compensated executive officers who were serving as executive officers as of December 31, 2013.

Table 80 — Summary Compensation Table — 2013

Name and Principal Position	Year	Salary			Non-Equity Incentive Plan Compensation[4]		Change in Pension Value and Nonqualified Deferred Compensation Earnings[5]	All Other Compensation[6]	Total
		Earned During Year[1]	Deferred[2]	Bonus[3]	At-Risk Deferred Salary	Target Opportunity			
Donald H. Layton	2013	$600,000	$—	$—	$—	$—	$ —	$ 23,827	$623,827
Chief Executive Officer	2012	368,750	—	—	—	—	—	—	368,750
James G. Mackey EVP — Chief Financial Officer	2013	70,881	230,303	510,000	127,602	—	—	—	938,786
Ross J. Kari	2013	675,000	1,530,000	—	907,200	—	82,457	114,362	3,309,019
Former EVP — Chief Financial Officer	2012	675,000	1,530,000	—	921,375	554,167	156,794	133,464	3,970,800
	2011	675,000	829,167	—	721,375	988,771	118,428	55,292	3,388,033
David B. Lowman EVP — Single-Family Business	2013	329,502	1,048,485	150,000	580,926	—	—	—	2,108,913
William H. McDavid EVP — General Counsel and Corporate Secretary	2013	500,000	1,320,000	—	768,300	—	—	29,713	2,618,013
Jerry Weiss EVP — Chief	2013	495,000	891,000	—	570,240	—	26,394	84,015	2,066,649
Administrative Officer	2012	495,000	891,000	—	579,150	348,333	218,711	94,584	2,626,778
	2011	450,000	508,334	—	442,249	618,732	164,482	73,735	2,257,532

(1) The amounts shown reflect Base Salary under the Executive Compensation Program as described in “Compensation Discussion and Analysis — Executive Management Compensation Program.”

(2) The amounts shown for 2013 and 2012 reflect the Fixed Deferred Salary earned under the terms of the Executive Compensation Program. The Fixed Deferred Salary earned during each calendar quarter is paid in cash on the last business day of the corresponding quarter in the following year. The remaining portion of Deferred Salary is reported in “Non-Equity Incentive Plan Compensation” and is referred to as "At-Risk" because it is subject to reduction based upon corporate and individual performance. The amounts shown for 2011 reflect the Fixed Deferred Base Salary earned under the prior executive compensation program in place for that year. The timing of payments for Fixed Deferred Base Salary earned during 2011 is the same as described above under the Executive Compensation Program. As with the amounts reported for 2013 and 2012, a portion of 2011 Deferred Base Salary is reflected in "Non-Equity Incentive Plan Compensation" because it is performance-based.

(3) The amounts shown reflect cash sign-on payments made to Messrs. Mackey and Lowman upon their hiring in 2013. See “Compensation Discussion and Analysis — Written Agreements Relating to Our NEOs' Employment" for additional information.

(4) The 2013 amounts reflect At-Risk Deferred Salary earned during 2013. At-Risk Deferred Salary earned during each calendar quarter will be paid on the last business day of the corresponding quarter in 2014. See “Compensation Discussion and Analysis — Executive Management Compensation Program — Performance Measures for the Performance-Based Elements of Compensation.”

The 2012 amounts reflect (i) At-Risk Deferred Salary earned during each calendar quarter in 2012 and paid on the last business day of the corresponding quarter in 2013, and (ii) the portion of the 2011 Target Opportunity that was earned in 2012 and paid in February 2013.

The 2011 amounts reflect (i) the At-Risk Deferred Base Salary earned during each calendar quarter in 2011 and paid on the last business day of the corresponding quarter in 2012, and (ii) the portions of the 2011 and 2010 Target Opportunities that were earned in 2011 and paid in February 2012.

(5) The amounts reported in this column reflect the actuarial increase in the present value of each NEO's accrued benefits under the Pension Plan and the Pension SERP Benefit determined using the time periods and assumptions applied in our consolidated financial statements for the years ended December 31, 2013, 2012, and 2011, respectively.

Messrs. Kari and Weiss are the only NEOs who were eligible to participate in the Pension Plan or Pension SERP because participation was limited to those individuals who were hired (or rehired) prior to January 1, 2012.

The amounts reported do not include values associated with retiree medical benefits, which are generally available on the same terms to all employees.

(6) Amounts reflect (i) contributions we made to our tax-qualified Thrift/401(k) Savings Plan; (ii) accruals we made pursuant to the Thrift/401(k) SERP Benefit; and (iii) Perquisites. The amounts for 2013 are as follows:

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	Thrift/401(k) Savings Plan Contributions	Thrift/401(k) SERP Benefit Accruals	Perquisites
Mr. Layton	$3,300	$20,527	$—
Mr. Mackey	—	—	—
Mr. Kari	21,550	92,812	—
Mr. Lowman	—	—	—
Mr. McDavid	300	29,413	—
Mr. Weiss	21,700	62,315	—

Employer contributions to the Thrift/401(k) Savings Plan are available on the same terms to all of our employees. After the first year of employment, we match up to 6% of eligible compensation at 100% of the employee's contributions. Employee contributions and our matching contributions are invested in accordance with the employee's investment elections and are immediately vested. In addition, on a discretionary basis, we may make an additional contribution to our Thrift/401(k) Savings Plan (referred to as the "Discretionary Contribution" for 2013 and as the "Basic Contribution" for years prior to 2013). In 2013, eligible employees received a Discretionary Contribution equal to 2.5% of compensation earned in the prior year. This contribution is vested 100% after an employee has completed three years of service. Amounts for the Thrift/401(k) Savings Plan contributions and Thrift/401(k) SERP Benefit accruals are presented without regard to vesting status. For additional information regarding the Thrift/401(k) SERP Benefit, see "Non-qualified Deferred Compensation" below.

Perquisites are valued at their aggregate incremental cost to us. During the years reported, the aggregate value of perquisites received by all NEOs was less than $10,000. In accordance with SEC rules, amounts shown under "All Other Compensation" do not include perquisites or personal benefits for an NEO that, in the aggregate, amount to less than $10,000.

Grants of Plan-Based Awards — 2013

The following table contains information concerning grants of plan-based awards to each of the NEOs during 2013. We are prohibited from issuing equity securities without Treasury's consent under the terms of the Purchase Agreement. Accordingly, no stock awards were granted during 2013. For a description of the performance and other measures used to determine payouts, see "Compensation Discussion & Analysis — Executive Management Compensation Program — Elements of Target Total Direct Compensation (Target TDC)," "— Performance Measures for the Performance-Based Elements of Compensation," "— Determination of 2013 Target TDC for NEOs," and "— Determination o Actual 2013 Compensation."

Table 81 — Grants of Plan-Based Awards — 2013

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]	
Name	At-Risk Deferred Salary Award	Threshold	Target/Maximum
Mr. Layton[2]	Conservatorship Scorecard	$ —	$ —
	Complementary Goals/Individual	—	—
	Total	—	—
Mr. Mackey	Conservatorship Scorecard	—	64,773
	Complementary Goals/Individual	—	64,772
	Total	—	129,545
Mr. Kari	Conservatorship Scorecard	—	472,500
	Complementary Goals/Individual	—	472,500
	Total	—	945,000
Mr. Lowman	Conservatorship Scorecard	—	294,887
	Complementary Goals/Individual	—	294,886
	Total	—	589,773
Mr. McDavid	Conservatorship Scorecard	—	390,000

	Complementary Goals/Individual	—	390,000
	Total	—	780,000
Mr. Weiss	Conservatorship Scorecard	—	297,000
	Complementary Goals/Individual	—	297,000
	Total	—	594,000

(1) The amounts reported reflect At-Risk Deferred Salary granted in 2013 which is subject to reduction based on (i) corporate performance against the Conservatorship Scorecard; and (ii) an officer's individual performance and the company's performance against the Complementary Corporate Goals. The amount of At-Risk Deferred Salary actually earned can range from 0% of target (reported in the Threshold column) up to a maximum of 100% of target (reported in the Target/Maximum column). Actual At-Risk Deferred Salary amounts earned are reported in the “Non-Equity Incentive Plan Compensation” column of “Table 80 — Summary Compensation Table — 2013.”

(2) Mr. Layton is not eligible to receive Deferred Salary.

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Outstanding Equity Awards at Fiscal Year-End — 2013

The following table shows outstanding equity awards held by the NEOs as of December 31, 2013. As of December 31, 2013, there were no outstanding RSUs.

Table 82 — Outstanding Equity Awards at Fiscal Year-End — 2013

Name	Grant Date	Option Awards[1] Number of Securities Underlying Unexercised Options Exercisable	Unexercisable	Option Exercise Price[2]	Option Expiration Date
Mr. Layton	—	—	—	$—	—
Mr. Mackey	—	—	—	—	—
Mr. Kari	—	—	—	—	—
Mr. Lowman	—	—	—	—	—
Mr. McDavid	—	—	—	—	—
Mr. Weiss	8/9/2004	4,970	—	64.36	8/8/2014
	5/6/2005	5,640	—	62.69	5/5/2015
	6/5/2006	5,980	—	60.45	6/4/2016

(1) Consistent with the terms of our 2004 Employee Plan, the option exercise price was set at a price equal to the fair market value of our common stock on the grant date.

(2) Amounts reported in this table represent the unexercised portion of stock option awards. The vesting schedules are as follows:

- Stock options granted on August 9, 2004 vested at a rate of 25% beginning on the first anniversary of the grant date, and 25% on April 1, 2006, April 1, 2007, and April 1, 2008.
- Stock options granted on May 6, 2005 and June 5, 2006 vested at a rate of 25% annually beginning on the first anniversary of the grant dates.

Option Exercises and Stock Vested — 2013

During 2013, no options were exercised and no RSUs vested.

Pension Benefits — 2013

The following table shows the actuarial present value of the accumulated retirement benefits payable to each of the NEOs under our Pension Plan and the Pension SERP Benefit (the component of the SERP that relates to the Pension Plan), computed as of December 31, 2013. A summary of the material terms of each plan follows the table, including information on early retirement. On October 24, 2013, the Company received a directive from FHFA to terminate the Pension Plan as well as the Terminating SERP. No Pension SERP Benefit accruals or Pension Plan accruals will occur after December 31, 2013. The accruals associated with the Terminating SERP will be distributed within twelve to twenty-four months of October 24, 2013.

Table 83 — Pension Benefits — 2013

Name	Plan Name	Number of Years Credited Service[1]	Present value of Accumulated Benefit[2]	Payments During Last Fiscal Year
Mr. Layton	Pension Plan	—	$ —	$—
	Pension SERP Benefit	—	—	—
Mr. Mackey	Pension Plan	—	—	—
	Pension SERP Benefit	—	—	—
Mr. Kari	Pension Plan	4.2	92,944	—
	Pension SERP Benefit	4.2	334,477	—

Mr. Lowman	Pension Plan	—	—	—
	Pension SERP Benefit	—	—	—
Mr. McDavid	Pension Plan	—	—	—
	Pension SERP Benefit	—	—	—
Mr. Weiss	Pension Plan	10.2	279,052	—
	Pension SERP Benefit	10.2	536,777	—

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(1) Amounts reported represent the credited years of service for each NEO as of December 31, 2013, under the Pension Plan and the Pension SERP Benefit, respectively.

(2) Amounts reported reflect the present value, expressed as a lump sum as of December 31, 2013, of each NEO's benefits under the Pension Plan and the Pension SERP Benefit, respectively. Amounts reported are calculated assuming a lump sum payment date as of December 31, 2014. Pension Plan and Pension SERP Benefits reflected are fully vested. Messrs. Layton, Mackey, Lowman and McDavid were not eligible to participate in the Pension Plan or Pension SERP Benefit since they were hired after December 31, 2011, when the plans closed to new hires.

Pension Plan

The Pension Plan is a tax-qualified, defined benefit pension plan, covering substantially all employees hired before 2012 who have attained age 21 and completed one year of service with us. The Pension Plan was closed to new entrants effective January 1, 2012. On October 24, 2013, we received a directive from FHFA to cease accruals under the Pension Plan effective December 31, 2013 and to commence terminating the Pension Plan. As shown above, Messrs. Weiss and Kari were eligible to participate in the Pension Plan. Pension Plan benefits are based on an employee's years of service through December 31, 2013, and compensation through December 29, 2013, up to limits imposed by law. Specifically, the normal retirement benefit under the Pension Plan for service after December 31, 1988 is a monthly payment commencing at age 65 calculated as follows:

- 1% of the participant's highest average monthly compensation for the 36-consecutive month period during which the participant's compensation was the highest;
- multiplied by the participant's full and partial years of credited service through December 31, 2013 under the Pension Plan.

For purposes of the Pension Plan, compensation includes cash payments to each employee for Base Salary, Deferred Salary under the Executive Compensation Program, supplemental pay under our current pay structure for vice presidents and below, as well as overtime pay, shift differentials, non-deferred bonuses paid under a corporate-wide annual bonus program (if any) or pursuant to a functional incentive plan (excluding the value of any stock options or cash equivalents), commissions and salary reductions under the Thrift/401(k) Savings Plan and the Flexible Benefits Plan (i.e. our cafeteria plan under Internal Revenue Code Section 125), and qualified transportation benefits under Internal Revenue Code Section 132(f)(4). Compensation does not include, among other things, supplemental compensation plans providing temporary pay, Deferred Base Salary amounts under the prior pay structure and amounts deferred under the EDCP (discussed below), amounts paid after termination of employment other than amounts included in a final paycheck, or amounts paid after the last pay date of 2013 (December 27, 2013).

The normal form of benefit under the Pension Plan is an annuity providing monthly payments for the life of the participant (and a survivor annuity for the participant's spouse if applicable). Optional forms of benefit payment are available. A benefit with an actuarial present value equal to or less than $5,000 may only be paid as a lump sum. Participants that terminate after December 31, 2011, may elect a lump sum payout.

Participants under the Pension Plan who terminate employment before age 55 with at least five years of service are considered "terminated vested" participants. Terminated vested participants may commence their benefit under the Pension Plan as early as age 55. The benefit is equal to the vested portion of the participant's accrued benefit, reduced by 1/180th for each of the first 60 months, and by 1/360th for each of the next 60 months, by which the commencement of such benefits precedes age 65. As a result of the Pension Plan termination directed by FHFA, unvested active participants as of December 31, 2013 became vested.

An early retirement benefit is available to a participant who terminates employment on or after age 55 with at least five years of service. For service before January 1, 2011, this early retirement benefit is reduced by 3% for each year (prorated monthly for partial years) by which the commencement of such benefits precedes the earlier of: (a) the participant's attainment of age 65; or (b) the participant's attainment of age 62 or later with at least 15 years of service. For service after December 31, 2010, the reduction is 5% for each year (prorated monthly for partial years) by which the commencement of benefits precedes the participant's attainment of age 65. For participants with service prior to January 1, 2011 and after December 31, 2010, the reductions are separately calculated, and the early retirement benefit is the sum of the two calculations. Death benefits are available provided the participant was vested.

Supplemental Executive Retirement Plan — Pension SERP Benefit

To be eligible for the Pension SERP Benefit for any year, the NEO must have been eligible to participate in the Pension Plan. Of the NEOs, only Messrs. Kari and Weiss were eligible to participate in the Pension Plan. Eligibility for the Pension SERP Benefit and the Pension Plan has been eliminated for employees (including executive officers) hired or rehired after December 31, 2011. See "Other Executive Compensation Considerations — Supplemental Executive Retirement Plan" above.

The Pension SERP Benefit component of the SERP is an unfunded (benefits are paid from general assets), non-qualified plan designed to provide participants with the full amount of benefits to which they would have been entitled under the Pension Plan if that plan: (a) was not subject to certain dollar limits under the Internal Revenue Code; and (b) did not exclude from "compensation" Deferred Base Salary amounts prior to 2012 and amounts deferred under our EDCP (discussed below). For example, the Pension Plan was only permitted under the Internal Revenue Code to consider the first $255,000 of an employee's compensation during 2013 for the purpose of determining the participant's compensation-based normal retirement benefit. The

SERP was previously amended to provide that the maximum covered compensation for purposes of the SERP, relative to an NEO, may not exceed two times the NEO's Base Salary.

The Pension SERP Benefit is calculated as the participant's accrued annual benefit payable at age 65 (or current age, if greater) under the Pension Plan without application of the limits described in the preceding paragraph, less the participant's actual accrued benefit under the Pension Plan. The Pension SERP Benefit is vested for each participant to the same extent that the participant is vested in the corresponding benefit under the Pension Plan.

Non-qualified Deferred Compensation

Executive Deferred Compensation Plan

The EDCP is a non-qualified plan and is unfunded (benefits are paid from our general assets). The EDCP has, in the past, allowed the NEOs to defer receipt of a portion of their annual base pay and cash bonus (and to defer settlement of RSUs granted between 2002 and 2007). Deferrals of pay under the EDCP were suspended beginning with calendar year 2011 and continue to be suspended. None of the NEOs have a balance under the EDCP.

Supplemental Executive Retirement Plan — Thrift/401(k) SERP Benefit

The Thrift/401(k) SERP Benefit component of the SERP is an unfunded (benefits are paid from general assets), non-qualified defined contribution plan designed to provide participants with the full amount of benefits that they would have been entitled to under the Thrift/401(k) Savings Plan if that plan: (a) was not subject to certain dollar limits under the Internal Revenue Code; and (b) did not exclude from "compensation" Deferred Base Salary amounts prior to 2012 and amounts deferred under our EDCP. For example, in 2013 under the Internal Revenue Code, only the first $255,000 of an employee's compensation was considered when determining our percentage-based matching contribution and the Discretionary Contribution for any participant in the Thrift/401(k) Savings Plan. The SERP was amended to provide that the maximum covered compensation for purposes of the SERP, relative to an NEO, may not exceed two times the NEO's Base Salary. We believe the Thrift/401(k) SERP Benefit is an appropriate benefit because offering such a benefit helps us remain competitive with companies in the Comparator Group.

The Thrift/401(k) SERP Benefit equals the amount of the employer matching contributions and Discretionary Contributions (or, prior to January 1, 2013, Basic Contributions) for each NEO that would have been made to the Thrift/401(k) Savings Plan during the year, based upon the participant's eligible compensation, without application of the above limits, less the amount of the matching contributions and Discretionary Contributions (or, prior to January 1, 2013, Basic Contributions) actually made to the Thrift/401(k) Savings Plan during the year. Participants are credited with earnings or losses in their Thrift/401(k) SERP Benefit accounts based upon each participant's individual direction of the investment of such notional amounts among the virtual investment funds available under the SERP. Such investment options are based upon and mirror the performance of the investment options available under the Thrift/401(k) Savings Plan. As of December 31, 2013, there were 21 investment options in which participants' notional amounts could be deemed invested.

To be eligible for the Thrift/401(k) SERP Benefit, the NEO must be eligible for matching contributions and Discretionary Contributions (or, prior to January 1, 2013, Basic Contributions) under the Thrift/401(k) Savings Plan for part of the year. In addition, to be eligible for the portion of the Thrift/401(k) SERP Benefit attributable to employer matching contributions, the NEO must contribute the maximum amount permitted under the terms of the Thrift/401(k) Savings Plan on a pre-tax basis. The portion of the Thrift/401(k) SERP Benefit that is attributable to employer matching contributions is vested when accrued, while the accrual relating to the Basic Contribution paid prior to 2008 is subject to five-year cliff vesting, the accrual relating to the Basic Contribution attributable to calendar years 2008-2011 is subject to five-year graded vesting of 20% per year, and, through 2013, the accrual relating to the Discretionary Contribution is subject to three-year cliff vesting.

The Thrift/401(k) SERP Benefits that vest on or after January 1, 2005 are generally distributed in a lump sum payable 90 days after the end of the calendar year in which separation from service occurs. A six-month delay in commencement of distributions on account of separation from service applies to key employees, in accordance with Internal Revenue Code Section 409A. If the NEO dies, the vested Thrift/401(k) SERP Benefit is paid in the form of a lump sum within 90 days of death.

As discussed in "Other Executive Compensation Considerations — Supplemental Executive Retirement Plan" above, the Thrift/401(k) SERP Benefits that vested prior to January 1, 2005 are part of the Terminating SERP. The final settlement of this benefit will be in the form of lump sum payments to each participant with a vested right to such benefit not less than twelve months but no more than twenty-four months after October 24, 2013.

The following table shows the contributions, earnings, withdrawals and distributions, and accumulated balances under the Thrift/401(k) SERP Benefit for each NEO. As of December 31, 2013, none of the NEOs was a participant in the EDCP.

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Table 84 — Non-Qualified Deferred Compensation

Name	Executive Contribution in Last FY ($)(1)	Freddie Mac Accruals in Last FY ($)(2)	Aggregate Earnings in Last FY ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(4)
Mr. Layton					
Thrift/401(k) SERP Benefit	$ —	$20,527	$4	$ —	$ 20,531
Mr. Mackey					
Thrift/401(k) SERP Benefit	—	—	—	—	—
Mr. Kari					
Thrift/401(k) SERP Benefit	—	92,812	(4,590)	—	235,094
Mr. Lowman					
Thrift/401(k) SERP Benefit	—	—	—	—	—
Mr. McDavid					
Thrift/401(k) SERP Benefit	—	29,413	5	—	29,418
Mr. Weiss					
Thrift/401(k) SERP Benefit	—	62,315	133,495	—	672,437

(1) The SERP does not allow for employee contributions.

(2) Amounts reported reflect accruals under the Thrift/401(k) SERP Benefit during 2013. These amounts are also reported in the "All Other Compensation" column in the Summary Compensation Table.

(3) Amounts reported represent the total interest and other earnings credited to each NEO under the Thrift/401(k) SERP Benefit.

(4) Amounts reported reflect the accumulated balances under the Thrift/401(k) SERP Benefit for each NEO. Messrs. Mackey and Lowman have not satisfied the one year service requirement for matching and Discretionary Contributions. Messrs. Layton, McDavid and Weiss are fully vested in their account balances. Mr. Kari is only partially vested in his account balance and the difference between his aggregate balance above and his vested balance is equal to the unvested Basic Contribution plus earnings. The vested and unvested components under the Thrift/401(k) SERP Benefit for Mr. Kari are $226,128 and $8,966, respectively. For a more detailed discussion of the matching contribution accruals and Discretionary Contribution accruals, see "Supplemental Executive Retirement Plan—Thrift/401(k) SERP Benefit" above.

The following 2012 Thrift/401(k) SERP Benefit accrual amounts were reported in the column "All Other Compensation" in the 2012 Summary Compensation Table as compensation for each NEO for whom accruals were made and reported during 2012: Mr. Layton: $0, Mr. Kari: $110,200, Mr. Weiss: $70,750. See our Form 10-K filed February 28, 2013. The following 2011 Thrift/401(k) SERP Benefit accrual amounts were reported in the column "All Other Compensation" in the 2011 Summary Compensation Table as compensation for each NEO for whom such accruals were made and reported during 2011: Mr. Kari: $33,750, Mr. Weiss: $40,500. See our Form 10-K filed March 9, 2012.

Potential Payments Upon Termination of Employment or Change-in-Control

We have entered into certain agreements and maintain certain plans that call for us to pay compensation to our NEOs in the event of a termination of employment. The table below describes the compensation and benefits that would have been payable to each NEO had the officer terminated his employment under various circumstances as of December 31, 2013. Mr. Layton is excluded from this table because he is not entitled to receive any payments in connection with a termination of employment, and Mr. Kari's actual termination benefits are described in the text following the table. The actual payment of any level of termination benefits is subject to FHFA review and approval. For more information, see "Employment and Separation Agreements" below.

The table below does not address changes in control, as we are not obligated to provide any additional compensation to our NEOs in connection with a change in control, nor does it address potential payments upon a termination for cause, which is a termination resulting from the occurrence of an event or conduct described in the Recapture Agreement. All earned but unpaid Deferred Salary is subject to forfeiture upon the occurrence of such a termination. However, the amount of compensation, if any, to be recaptured and/or forfeited is determined by the Board of Directors, which can only occur following the occurrence of a for cause termination. See Other Executive Compensation Considerations — Recapture and Forfeiture Agreement.

Additionally, each of our NEOs is subject to a restrictive covenant and confidentiality agreement with us. Each agreement provides that the NEO will not seek employment with designated competitors that involves performing similar duties for a specified period immediately following termination of employment, regardless of whether the executive's employment is terminated by the executive, by us, or by mutual agreement. The specified period is twenty-four months for Messrs. Layton and Kari and twelve months for the remaining four NEOs. During the twelve-month period immediately following termination, each executive also agrees not to solicit or recruit any of our managerial employees. The agreement also provides for confidentiality of information that constitutes trade secrets or proprietary or other confidential information.

The table below does not include vested balances in the Thrift/401(k) SERP Benefit or vested benefits in the Pension SERP Benefit. Amounts shown in the table also do not include certain items available to all employees generally upon a termination event.

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There were no outstanding RSUs held by NEOs as of December 31, 2013, and Mr. Weiss is the only NEO holding stock options. No value is included in the table for stock options, because the exercise prices for all such options outstanding are substantially higher than the closing price of our common stock on December 31, 2013.

Potential Payments Under the Executive Compensation Program

The Executive Compensation Program addresses the treatment of Base Salary and Deferred Salary upon various termination events.

Base Salary ceases upon an NEO's termination of employment, regardless of the termination reason. An NEO generally does not need to be employed by us on the payment date to receive payments of Deferred Salary that are unpaid at the time of termination of employment. The discussion that follows describes the effect of various termination events upon unpaid Deferred Salary.

- Forfeiture Event — All earned but unpaid Fixed and At-Risk Deferred Salary is subject to forfeiture upon the occurrence of a Forfeiture Event, as described above under "— Recapture and Forfeiture Agreement."
- Death — All earned but unpaid Fixed and At-Risk Deferred Salary is paid in full as soon as administratively possible, but not later than 90 calendar days after the date of death and any earned but unpaid At-Risk Deferred Salary is not subject to reduction based on corporate and individual performance.
- Long-Term Disability — All earned but unpaid Fixed and At-Risk Deferred Salary is paid in full in accordance with the Approved Payment Schedule and any earned but unpaid At-Risk Deferred Salary is not subject to reduction based on corporate and individual performance.
- Any Other Reason (including, but not limited to, voluntary termination, retirement, and involuntary termination for any reason other than a Forfeiture Event) — All earned but unpaid Deferred Salary is paid in accordance with the Approved Payment Schedule and earned but unpaid At-Risk Deferred Salary remains subject to the performance assessment and reduction process. Except in the case of retirement, the amount of earned but unpaid Fixed Deferred Salary will be reduced by 2% for each full or partial month by which the NEO's termination precedes January 31 of the second calendar year following the calendar year in which the Fixed Deferred Salary is earned. No such reduction is applicable if an NEO retires, which is deemed to have occurred upon a voluntary termination of employment after attaining or exceeding 65 years of age, without regard to length of service.

Table 85 — Potential Payments Upon Termination of Employment or Change-in-Control as of December 31, 2013

	Death	Disability	Retirement(4)	All Other Not For Cause Terminations(5)
James G. Mackey				
Deferred Salary:				
Fixed(1)	$230,303	$230,303	$—	$170,424
At Risk-Conservatorship Scorecard(2)	64,773	64,773	—	62,830
At Risk-Complementary Goals/Individual(3)	64,772	64,772	—	64,772
Total	$359,848	$359,848	$—	$298,026
David B. Lowman				
Deferred Salary:				
Fixed(1)	$1,048,485	$1,048,485	$—	$775,879
At Risk-Conservatorship Scorecard(2)	294,887	294,887	—	286,040
At Risk-Complementary Goals/Individual(3)	294,886	294,886	—	294,886
Total	$1,638,258	$1,638,258	$—	$1,356,805
William H. McDavid				
Deferred Salary:				
Fixed(1)	$1,320,000	$1,320,000	$1,320,000	$—
At Risk-Conservatorship Scorecard(2)	390,000	390,000	378,300	—
At Risk-Complementary Goals/Individual(3)	390,000	390,000	390,000	—
Total	$2,100,000	$2,100,000	$2,088,300	$—
Jerry Weiss				

Deferred Salary:				
Fixed[1]	$891,000	$891,000	$—	$659,340
At Risk-Conservatorship Scorecard[2]	297,000	297,000	—	288,090
At Risk-Complementary Goals/Individual[3]	297,000	297,000	—	282,150
Total	$1,485,000	$1,485,000	$—	$1,229,580

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(1) In accordance with early termination provisions in the Executive Compensation Program, the amounts disclosed for Deferred Salary: Fixed in the All Other Not For Cause Terminations column have been reduced by 26% to reflect a December 31, 2013 termination scenario.

(2) The amounts reported for Deferred Salary: At Risk-Conservatorship Scorecard in the Retirement and All Other Not For Cause Terminations columns reflect the funding level determined by FHFA with respect to performance against the 2013 Conservatorship Scorecard.

(3) The amounts reported for Deferred Salary: At Risk-Complementary Goals/Individual in the Retirement and All Other Not For Cause Terminations columns reflect the assessment of 2013 performance approved by the Compensation Committee and FHFA.

(4) Mr. McDavid is the only NEO who meets the requirement for retirement eligibility under the 2013 Executive Compensation Program.

(5) All Other Not For Cause Terminations refer to voluntary terminations other than for retirement and involuntary terminations other than for cause. No amounts are displayed for Mr. McDavid because he is retirement eligible.

Former Named Executive Officer – Mr. Kari

On December 18, 2012, Mr. Kari notified the company of his intent to retire in the second half of 2013 following his 55th birthday. While Mr. Kari's tenure as Chief Financial Officer ended in November 2013, he continued to serve in an advisory capacity through January 8, 2014 to facilitate a smooth transition of his duties. Under the terms of the Executive Compensation Program, Mr. Kari is entitled to receive the 2013 Deferred Salary amounts reported in Table 80 — Summary Compensation Table — 2013, with the exception of Fixed Deferred Salary, which is subject to an early termination reduction that will reduce the amount paid from $1,530,000 to $1,132,200. Deferred Salary amounts to which Mr. Kari is entitled will be paid in 2014 according to the Approved Payment Schedule. He is not eligible to receive any additional termination benefits.

Additionally, Mr. Kari forfeited $8,966 of unvested Thrift/401(k) SERP benefits as a result of his termination.

Alternative Settlement Provisions for Equity Awards in the Event of Certain Terminations

Stock Options

The stock options granted to Mr. Weiss that were exercisable as of December 31, 2013 include alternative settlement provisions in the event of certain terminations, as follows:

- Death. Stock options remain exercisable until the earlier of the original expiration date or three years after the date of termination in the event of death.
- Disability. Stock options remain exercisable for the full balance of their term in the event of disability.
- Retirement. Stock options remain exercisable for the full balance of their term in the event of retirement.
- All Other Terminations. If the individual’s employment is terminated for any reason other than those described above, the stock options remain exercisable until the earlier of the original expiration date or 90 days following termination.

Employment and Separation Agreements

The various agreements entered into in connection with the employment of our NEOs are summarized above. See “Compensation Discussion and Analysis — Written Agreements Relating to Our NEOs' Employment.”

Director Compensation

After we entered conservatorship, FHFA approved compensation for Board members in the form of cash retainers only, paid on a quarterly basis. Under the terms of the Purchase Agreement, without Treasury’s consent, we are prohibited from making stock grants to directors while this agreement remains in effect. We do not maintain any pension or retirement plans for directors. Non-employee directors are reimbursed for reasonable out-of-pocket costs for attending meetings of the Board or a Board committee of which they are a member and for other reasonable expenses associated with carrying out their responsibilities as directors.

The reasons for this shift toward compensation delivered entirely in cash were similar, in the case of director compensation, to some of those described above regarding the structural change in executive compensation (see "Compensation Discussion and Analysis — Executive Management Compensation Program — Overview of Program Structure"). However, the considerations underlying director and executive compensation differed in one key respect. There is no provision in the director compensation program for pay that varies depending on business results. Although such incentive compensation is deemed appropriate to give management strong incentives to devise and execute business plans and achieve positive financial results, it is viewed in the case of directors as inconsistent with their oversight role.

Board compensation levels during conservatorship are shown in the table below.

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Table 86 — Board Compensation — 2013 Non-Employee Director Compensation Levels

Board Service	
Cash Compensation	
Annual Retainer	$160,000
Annual Retainer for Non-Executive Chairman	290,000
Committee Service (Cash)	
Annual Retainer for Audit Committee Chair	$25,000
Annual Retainer for Business and Risk Committee Chair	15,000
Annual Retainer for Committee Chairs (other than Audit or Business and Risk)	10,000
Annual Retainer for Audit Committee Members	10,000

The following table summarizes the 2013 compensation provided to all persons who served as non-employee directors during 2013.

Table 87 — 2013 Director Compensation

Name	Fees Earned or Paid in Cash	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	All Other Compensation(3)	Total
C. Lynch	$300,000	$ —	$—	$300,000
L. Bammann(1)	102,242	—	—	102,242
C. Byrd	185,000	—	20,000	205,000
R. Hartnack(1)	104,615	—	20,000	124,615
S. Kohlhagen(1)	147,973	—	20,000	167,973
S. Mathew(1)	8,587	—	—	8,587
S. Naqvi(1)	64,348	—	20,000	84,348
N. Retsinas	160,000	—	5,750	165,750
E. Shanks, Jr.	170,000	—	20,000	190,000
A. Williams	180,000	—	—	180,000

(1) The amount represents partial annual compensation for the period served during 2013. Mr. Kohlhagen joined the Board in February 2013, Mr. Hartnack joined the Board in May 2013, Mr. Naqvi joined the Board in August 2013, and Ms. Mathew joined the Board in December 2013. Ms. Bammann resigned from the Board in July 2013.

(2) We do not have any pension or retirement plans for our non-employee directors.

(3) In 2013, the Freddie Mac Foundation provided a dollar-for-dollar match to eligible organizations and institutions, up to an aggregate amount of $20,000 per director per calendar year. Matching contributions made to charities designated by the non-employee directors were as follows: Ms. Byrd, $20,000; Mr. Hartnack, $20,000; Mr. Kohlhagen, $20,000; Mr. Naqvi, $20,000; Mr. Retsinas, $5,750; and Mr. Shanks, Jr., $20,000.

Indemnification. We have also made arrangements to indemnify our directors against certain liabilities which are similar to the terms on which our executive officers are indemnified. For a description of such terms, see "— Written Agreements Relating to Our NEOs' Employment— Indemnification Agreements."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership

Our only class of voting stock is our common stock. (Upon its appointment as Conservator, FHFA immediately succeeded to the voting rights of holders of our common stock.) The following table shows the beneficial ownership of our common stock as of February 25, 2014 by our current directors, our NEOs, all of our directors and executive officers as a group, and holders of more than 5% of our common stock. Beneficial ownership is determined in accordance with SEC rules for computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person. As of February 25, 2014, each director and NEO, and all of our directors and executive officers as a group, owned less than 1% of our outstanding common stock. Unless otherwise noted, the information presented below is based on information provided to us by the individuals or entities specified in the table.

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Table 88 — Stock Ownership by Directors, Executive Officers, and Greater-Than-5% Holders

Name	Position	Common Stock Beneficially Owned Excluding Stock Options[1]	Stock Options Exercisable Within 60 Days of Feb. 25, 2014	Total Common Stock Beneficially Owned
Carolyn H. Byrd	Director	—	—	—
Richard C. Hartnack	Director	—	—	—
Steven W. Kohlhagen	Director	—	—	—
Christopher S. Lynch	Director	—	—	—
Sara Mathew	Director	—	—	—
Saiyid T. Naqvi	Director	—	—	—
Nicolas P. Retsinas	Director	10,824[2]	—	10,824
Eugene B. Shanks, Jr.	Director	—	—	—
Anthony A. Williams	Director	—	—	—
Donald H. Layton	Chief Executive Officer	—	—	—
James G. Mackey	EVP — Chief Financial Officer	—	—	—
Ross J. Kari	Former EVP — Chief Financial Officer	—	—	—
David B. Lowman	EVP — Single Family Business	—	—	—
William H. McDavid	EVP — General Counsel & Corp. Sec.			
Jerry Weiss	EVP — Chief Administrative Officer	—	16,590	16,590
All directors and executive officers as a group (23 persons)		102,261[2]	37,240	139,501

5% Holder	Common Stock Beneficially Owned	Percent of Class
U.S. Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	Variable[3]	79.9%
Pershing Square Capital Management, L.P. 888 Seventh Avenue, 42nd Floor New York, New York 10019	Common	9.77%[4]

(1) Includes shares of stock beneficially owned as of February 25, 2014.

(2) Includes distribution of 6,866 RSUs and 169 dividend equivalents on RSUs, previously deferred with no remaining restrictions.

(3) In September 2008, we issued to Treasury a warrant to purchase, for one one-thousandth of a cent ($0.00001) per share, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised. The warrant may be exercised in whole or in part at any time until September 7, 2028. As of the date of this filing, Treasury has not exercised the warrant. The information above assumes Treasury beneficially owns no other shares of our common stock.

(4) The source of this data is the Schedule 13D filed with the SEC by Pershing on November 15, 2013. Pershing's beneficial ownership percentage calculation is based solely on the 650,039,533 shares of our common stock outstanding as reported in our Form 10-Q for the Quarter ended September 30, 2013, and excludes the shares issuable to Treasury pursuant to the warrant. According to the Schedule 13D, Pershing Square Capital

Management, L.P., as investment adviser for a number of funds for which it purchased the shares reported in the table above, and PS Management GP, LLC, its general partner, may be deemed to share voting and dispositive power for the shares. Pershing Square GP, LLC, as general partner of two of the funds, may be deemed to share voting and dispositive power for 21,592,526 of the shares held for the account of Pershing Square, L.P. and 451,065 shares of common stock held for the account of Pershing Square II, L.P. As the Chief Executive Officer of Pershing Square Capital Management, L.P. and managing member of each of PS Management GP, LLC and Pershing Square GP, LLC, William A. Ackman may be deemed to share voting and dispositive power for all of the shares reported in the table above.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our common stock that may be issued upon the exercise of options, warrants, and rights under our existing equity compensation plans at December 31, 2013. Our stockholders have approved the ESPP, the 2004 Employee Plan and the 1995 Employee Plan (together, the Employee Plans), and the Directors' Plan. We suspended the operation of these plans following our entry into conservatorship and are no longer granting awards under such plans.

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Table 89 — Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	877,936(1)	$57.01(2)	35,051,033(3)
Equity compensation plans not approved by stockholders	None	N/A	None

(1) Includes 61,501 restricted stock units and shares of restricted stock issued under the Directors' Plan and the Employee Plans.

(2) For the purpose of calculating this amount, the restricted stock units and shares of restricted stock are assigned a value of zero.

(3) Includes 27,570,685 shares, 5,845,739 shares, and 1,634,609 shares available for issuance under the 2004 Employee Plan, the ESPP and the Directors' Plan, respectively. No shares are available for issuance under the 1995 Employee Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policy Governing Related Person Transactions

The Board has adopted a written policy governing the approval of related person transactions. This policy sets forth procedures for the review and approval or ratification of transactions involving related persons, which consist of any person who is, or was at any time since the beginning of our last completed fiscal year, a director, a director nominee, an executive officer, or an immediate family member of any of the foregoing persons.

Under authority delegated by the Board, our General Counsel and the Nominating and Governance Committee (or its Chair under certain circumstances), each, an Authorized Approver, are responsible for applying the Related Person Transactions Policy. Transactions covered by the Related Person Transactions Policy consist of any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, in which: (a) the aggregate amount involved exceeded or is expected to exceed $120,000; (b) we were or are expected to be a participant; and (c) any related person had or will have a direct or indirect material interest. The Related Person Transactions Policy includes a list of categories of transactions identified by the Board as having no significant potential for an actual conflict of interest or the appearance of a conflict or improper benefit to a related person, and thus not considered potential related person transactions subject to review.

Our Legal Division assesses whether any proposed transaction involving a related person is covered by the Related Person Transactions Policy. If so, the transaction is reviewed by the appropriate Authorized Approver. In consultation with the Chair of the Nominating and Governance Committee, the General Counsel may refer any proposed transaction to the Nominating and Governance Committee for review and approval.

If possible, approval of a related person transaction is obtained prior to the effectiveness or consummation of the transaction. If advance approval of a related person transaction by the appropriate Authorized Approver is not feasible or otherwise not obtained, then the transaction is considered promptly by the appropriate Authorized Approver to determine whether ratification is warranted.

In determining whether to approve or ratify a related person transaction covered by the Related Person Transactions Policy, the appropriate Authorized Approver reviews and considers all relevant information which may include: (a) the nature of the related person’s interest in the transaction; (b) the approximate total dollar value of, and extent of the related person’s interest in, the transaction; (c) whether the transaction was or would be undertaken in the ordinary course of our business; (d) whether the transaction is proposed to be, or was, entered into on terms no less favorable to us than terms that could have been reached with an unrelated third party; and (e) the purpose, and potential benefits to us, of the transaction.

Corporate Governance Guidelines

In September 2013, the Board adopted our amended Corporate Governance Guidelines, or our Guidelines, which are available on our website at www.freddiemac.com/governance/pdf/gov_guidelines.pdf.

Director Independence

The non-employee members of the Board evaluated the independence, as defined in both Sections 4 and 5 of our Guidelines and in Section 303A.02 of the NYSE Listed Company Manual, of (i) each of the non-employee members of our Board currently serving, each of whom also served on our Board in 2013, and (ii) Ms. Linda B. Bammann, who served on our Board until July 2013. In connection with these evaluations, the non-employee members of the Board determined that (i) all

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current members of our Board (other than Mr. Layton, our CEO) are independent and (ii) Ms. Bammann was independent during her service in 2013. Mr. Layton is not considered an independent director because he is our CEO. The non-employee members of the Board also concluded that all current members of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee are independent within the meaning of both Sections 4 and 5 of our Guidelines and Section 303A.02 of the NYSE Listed Company Manual. The non-employee members of the Board also determined that all current members of the Audit Committee are independent within the meaning of Rule 10A-3 promulgated under the Exchange Act, and Section 303A.06 of the NYSE Listed Company Manual.

In determining the independence of each Board member, the non-employee members of the Board reviewed the following categories or types of relationships, in addition to those specifically addressed by the standards contained in Section 5 of our Guidelines, to determine whether those relationships, either individually or when aggregated with other relationships, would constitute a material relationship between the Director and us that would impair a Director's judgment as a member of the Board or create the perception or appearance of such an impairment:

- Board Memberships With For-Profit Business Partners. During 2013 and currently, Ms. Byrd and Messrs. Lynch, Retsinas, and Shanks serve as directors of other companies that engage or have engaged in business with us resulting in payments between us and such companies during the past three fiscal years. After considering the nature and extent of the specific relationship between each of those companies and us, and the fact that these Board members are directors of these other companies rather than employees, the non-employee members of the Board concluded that those business relationships do not constitute material relationships between any of the Directors and us that would impair their independence as our Directors.
- Board Memberships With Charitable Organizations To Which We Have Made Contributions. During 2013, Mr. Retsinas served as a board member of a charitable organization that received monetary contributions from us or the Freddie Mac Foundation. The total annual amount contributed was below the applicable threshold in our Guidelines that would require a specific determination that Mr. Retsinas is independent in spite of the contributions. The non-employee members of the Board considered the contributions and the nature of the organization and concluded that the relationship with the charitable organization did not constitute a material relationship between Mr. Retsinas and us that would impair his independence as our Director.
- Financial Relationships with For-Profit Business Partners. Mr. Hartnack owns stock of US Bancorp. In the aggregate, this stock represents a material portion of his net worth. US Bancorp conducts significant business with Freddie Mac, including as a single-family seller/servicer and as trustee of some of Freddie Mac's securitization transactions. In order to eliminate any potential conflict of interest that might arise as a result of this stock ownership, Mr. Hartnack has agreed to recuse himself from discussing and acting upon any matters that are to be considered by the full Board or any of the committees of which he is a member, and that relate directly to US Bancorp. The Audit Committee Chairman, in consultation with the Non-Executive Chairman, will address any questions that may arise regarding whether recusal from a particular discussion or action is appropriate.

In evaluating Mr. Hartnack's independence in light of his ownership of US Bancorp stock, the non-employee members of the Board considered the nature and extent of Freddie Mac's business relationship with US Bancorp and any potential impact that his stock ownership might have on his independent judgment as a Freddie Mac director, taking into account the recusal arrangement. The non-employee members of the Board concluded that Mr. Hartnack's recusal arrangement concerning US Bancorp would address any actual or potential conflicts of interest that might arise with respect to his ownership of US Bancorp stock. Accordingly, the non-employee members concluded that Mr. Hartnack's ownership of US Bancorp stock does not constitute a material relationship between him and Freddie Mac that would impair his independence as a Freddie Mac director.

Mr. Naqvi owns stock of PNC Financial Services Group, Inc. (PNC). In the aggregate, this stock represents a material portion of his net worth. PNC conducts significant business with Freddie Mac, including as a single-family seller/servicer and as trustee of some of Freddie Mac's securitization transactions. In order to eliminate any potential conflict of interest that might arise as a result of this stock ownership, Mr. Naqvi has agreed to recuse himself from discussing and acting upon any matters that are to be considered by the full Board or any of the committees of which he is a member (including the Business and Risk Committee), and that relate directly to PNC. The Audit Committee

Chairman, in consultation with the Non-Executive Chairman, will address any questions that may arise regarding whether recusal from a particular discussion or action is appropriate.

In evaluating Mr. Naqvi's independence in light of his ownership of PNC stock, the non-employee members of the Board considered the nature and extent of Freddie Mac's business relationship with PNC and any potential impact that his stock ownership might have on his independent judgment as a Freddie Mac director, taking into account the recusal arrangement. The non-employee members of the Board concluded that Mr. Naqvi's recusal arrangement concerning PNC would address any actual or potential conflicts of interest that might arise with respect to his ownership of PNC stock. Accordingly, the non-employee members concluded that Mr. Naqvi's ownership of PNC stock does not constitute a material relationship between him and Freddie Mac that would impair his independence as a Freddie Mac director.

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Ms. Bammann, who served as a director until July 2013, owned stock of JPMorgan Chase. In the aggregate, this stock represented a material portion of her net worth. JPMorgan Chase conducts significant business with Freddie Mac, including, among other things, as a single-family and multifamily seller/servicer, as an underwriter of our debt and mortgage securities and as a capital markets counterparty. In order to eliminate any potential conflict of interest that might arise as a result of this stock ownership, Ms. Bammann agreed to recuse herself from discussing and acting upon any matters that were to be considered by the full Board or any of the committees of which she was a member (including the Business and Risk Committee, which she chaired), and that related directly to JPMorgan Chase. The Audit Committee Chairman, in consultation with the Non-Executive Chairman, had the authority to address any questions regarding whether recusal from a particular discussion or action was appropriate.

In evaluating Ms. Bammann's independence in light of her ownership of JPMorgan Chase stock, in 2013 the non-employee members of the Board considered the nature and extent of Freddie Mac's business relationship with JPMorgan Chase and any potential impact that her stock ownership might have had on her independent judgment as a Freddie Mac director, taking into account the recusal arrangement. The non-employee members of the Board concluded that Ms. Bammann's recusal arrangement concerning JPMorgan Chase would address any actual or potential conflicts of interest that might arise with respect to her ownership of JPMorgan stock. Accordingly, the non-employee members concluded that Ms. Bammann's ownership of JPMorgan Chase stock did not constitute a material relationship between her and Freddie Mac that impaired her independence as a Freddie Mac director.

Board Diversity

The Board identifies Director nominees or candidates for the Conservator to consider for election by written consent and when there is a vacancy on the Board, at which time the Board may exercise the authority delegated to it by the Conservator to fill such vacancies, subject to review by the Conservator.

Our charter provides that our Board must at all times have at least one person from the homebuilding, mortgage lending, and real estate industries, and at least one person from an organization representing community or consumer interests or one person who has demonstrated a career commitment to the provision of housing for low-income households. In addition, the examination guidance for corporate governance issued by FHFA provides that in identifying individuals for nomination for election to the Board, the Board should consider the knowledge of such individuals, as a group, in the areas of business, finance, accounting, risk management, public policy, mortgage lending, real estate, low-income housing, homebuilding, regulation of financial institutions, and any other areas that may be relevant to our safe and sound operation.

In addition, the Board has adopted a formal policy (articulated in our Guidelines) with regard to the consideration of diversity in identifying director nominees and candidates. As articulated in the policy, the Board seeks to have a diversity of talent, perspectives, experience and cultures among its members, including minorities, women and individuals with disabilities, and considers such diversity in the candidate solicitation and nomination processes. The policy also states that the Board seeks to have a diversity of talent on the Board and that candidates are selected, in part, for their experience and expertise. The policy also explains that when identifying director nominees, the Nominating and Governance Committee considers, among other factors, our needs, the talents and skills then available on the Board, and, with respect to incumbent directors, their continued involvement in business and professional activities relevant to us, the skills and experience that should be represented on the Board, the availability of other individuals with desirable skills to join the Board, and the desire to maintain a diverse Board.

FHFA also has adopted a final rule regarding minority and women inclusion that became effective in January 2011. The final rule implements section 1116 of the Reform Act and generally requires us to promote diversity and the inclusion of women, minorities, and individuals with disabilities in all activities, including considering diversity in the process of nominating directors, as required by these regulations.

Board Leadership Structure and Role in Risk Oversight

The positions of Chief Executive Officer and Non-Executive Chairman of the Board are held by different individuals. This leadership structure was established by the Conservator when it appointed separate individuals to hold those two positions in September 2008. The examination guidance for corporate governance issued by FHFA provides that once separated, the functions of the Chief Executive Officer and the Non-Executive Chairman of the Board should remain separated until such time as the Director of FHFA determines otherwise.

The responsibility for risk oversight is shared by two committees of the Board, the Business and Risk Committee and the Audit Committee, with primary risk oversight responsibility allocated to the Business and Risk Committee. The Business and Risk Committee is responsible for assisting the Board in the oversight, on an enterprise-wide basis, of our risk management framework, including management of credit risk (including counterparty risk), market risk (including interest rate and liquidity risk), model risk, operational risk, strategic risk, and reputation risk. The risk oversight responsibilities of the Audit Committee include reviewing generally: (a) management's guidelines and policies governing the processes for assessing and managing our risks; and (b) our major financial risk exposures and the steps management has taken to monitor and control such exposures. Copies of the Charters of the Audit Committee and the Business and Risk Committee are available on our website at http://www.freddiemac.com/governance/bd committees.html.

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The Enterprise Risk Management Division ("ERM") is responsible for the independent assessment and management of risks across the company, including credit, market, model and operational risk. ERM's mandate is primarily governed through a Board – approved enterprise risk management policy that establishes the Board's risk appetite, risk limits and Board reporting thresholds (the "ERM Policy"). ERM is led by the Executive Vice President — Chief Enterprise Risk Officer, who reports directly to the Chief Executive Officer. The Executive Vice President — Chief Enterprise Risk Officer also reports to the Business and Risk Committee of the Board of Directors on a quarterly basis and to the full Board of Directors, as appropriate. ERM's Board reports include standard quarterly risk reports and ad hoc agenda items on specific topics. The ERM Policy and the ERM framework outlined therein apply to all areas of the company, and are complemented by underlying policies at the division and department levels that support the management, monitoring and reporting of risk across the company. The overall ERM framework includes a risk inventory, risk appetite, risk limits, as well as monitoring and reporting requirements. The Chief Executive Officer has also established a corporate enterprise risk management committee (the "ERMC") to monitor, coordinate and oversee the management of the company's risks consistent with the ERM Policy. The Executive Vice President — Chief Enterprise Risk Officer chairs the ERMC, which comprises most members of senior management. ERM aggregates risk exposures managed throughout the company from the relevant risk owners for review and discussion at the ERMC. The ERMC is supported by the following subcommittees: Operational Risk, Single Family Risk, Multifamily Risk, I&CM Risk, Economic Capital Working Group and Loan Loss Reserves and Loss Forecast. Information flows from the subcommittees to the ERMC as appropriate, and information and reports to be provided to the Board's Business and Risk Committee, the Board or any other Board committee are usually reviewed and discussed in the ERMC prior to the relevant Board or Board committee meeting. Other committees providing escalation of risk exposures, as necessary, include the Valuation and Finance Model Committee and the Remediation Committee. In addition, the Board specifically evaluates the company's performance against the Risk Management prong of the Complementary Corporate Goals. See "CD&A— At-Risk Deferred Salary Based on Complementary Corporate Goals and Individual Performance."

For a discussion of the Compensation Committee's conclusion that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on us, see "Executive Compensation — Compensation and Risk."

Transactions with 5% Shareholders

In connection with our entry into conservatorship, we issued a warrant to Treasury to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis. There were a number of transactions between us and Treasury since the beginning of 2013, as discussed in "BUSINESS — Conservatorship and Related Matters," "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS," as well as in "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS," and "NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT)."

FHFA, as conservator, approved the Purchase Agreement and our administrative role in the MHA Program and the Memorandum of Understanding with Treasury, FHFA, and Fannie Mae (see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative"). The remaining transactions described in the sections referenced above did not require review and approval under any of our policies and procedures relating to transactions with related persons.

Transactions with Institutions Related to Directors

In the ordinary course of business, we were a party during 2013, and expect to continue to be a party during 2014, to certain business transactions with institutions affiliated with members of our Board. Management believes that the terms and conditions of the transactions were no more and no less favorable to us than the terms of similar transactions with unaffiliated institutions to which we are, or expect to be, a party. None of these transactions were required to be disclosed under SEC rules.

Transactions with Institutions Related to Executive Officers

Mr. Layton joined us in May 2012 as CEO and as a member of the Board of Directors. Mr. Layton previously served as a senior executive officer of JPMorgan Chase, ending his service in 2004.

Freddie Mac has an extensive business relationship with JPMorgan Chase (through its subsidiaries). As of December 31, 2013, JPMorgan Chase was Freddie Mac's second largest servicer, and serviced approximately 1.26 million loans for Freddie Mac. JPMorgan Chase had an aggregate unpaid principal balance of loans of approximately $208.2 billion as of December 31, 2013 and approximately $207.8 billion as of January 31, 2014. JPMorgan Chase sold approximately $53.9 billion in single-family loans to Freddie Mac in 2013.

JPMorgan Chase also is a significant capital markets, derivatives and multifamily counterparty and is an underwriter of our debt and mortgage securities. As of January 31, 2014, JPMorgan Chase and its subsidiaries had an aggregate notional balance of $44.4 billion of derivatives (which included $20 billion of exchange-traded instruments) with Freddie Mac. From January 1, 2013 through January 31, 2014, JPMorgan Chase served as underwriter for $35.9 billion of Freddie Mac's debt securities and $20.4 billion of Freddie Mac's mortgage-related securities.

Mr. Layton receives a pension from JPMorgan Chase in connection with his retirement in 2004. In addition, Mr. Layton has a deferred compensation balance under JPMorgan Chase's Deferred Compensation Plan, of which approximately 80% is

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payable in fifteen annual installments beginning in January 2016 and earns a return based upon a defined list of mutual funds that Mr. Layton designates. The remaining 20% is in the form of a “private equity balance” that is payable as proceeds are realized from the underlying private equity transactions into which the funds were invested.

Mr. Layton’s deferred compensation balance is less than ten percent of his total net worth on an after-tax basis.

Mr. Layton also has brokerage and deposit accounts with JPMorgan Chase.

The amount of Mr. Layton’s pension and deferred compensation do not depend in any way on JPMorgan Chase’s results as long as JPMorgan Chase is able to meet its obligations. In addition, in order to eliminate any potential conflicts of interest, Mr. Layton agreed to recuse himself from acting upon matters directly relating to JPMorgan Chase that may be considered by the Board of Directors, or presented to him in his capacity as CEO and a member of the Board, if such matter has the potential to impact JPMorgan Chase’s ability to satisfy its obligations to him.

Mr. Layton does not have a material interest in our relationship with JPMorgan Chase and the relationships described above were not required to be reviewed, approved or ratified under our Related Person Transactions Policy.

Conservatorship Agreements

Treasury, FHFA, and the Federal Reserve have taken a number of actions to support us during conservatorship, including entering into the Purchase Agreement, described in this Form 10-K. See “BUSINESS — Conservatorship and Related Matters" and “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Related Parties as a Result of Conservatorship.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Description of Fees

The following is a description of fees billed to us by PricewaterhouseCoopers LLP, our independent public accountants, during 2013 and 2012.

Table 90 — Auditor Fees[1]

	2013	2012
Audit Fees[2]	$30,085,013	$30,651,367
Audit-Related Fees[3]	105,025	76,119
Tax Fees[4]	9,314	109,250
All Other Fees[5]	12,000	—
Total	$30,211,352	$30,836,736

(1) These fees represent amounts billed within the designated year and include reimbursable expenses of $199,956 and $365,016 for 2013 and 2012, respectively.

(2) Audit fees include fees and reimbursable expenses billed by PricewaterhouseCoopers LLP in connection with the AU 722 quarterly reviews of our interim financial information and the audit of our annual consolidated financial statements. The audit fees billed during 2013 include fees and reimbursable expenses related to the 2013 ($19,610,667) and 2012 ($10,474,346) audits. In addition to the amounts shown above, approximately $8.3 million of fees and reimbursable expenses will be billed in 2014 for the 2013 audit. The audit fees billed during 2012 include fees and reimbursable expenses related to the 2012 ($19,911,326) and 2011 ($10,740,041) audits. Audit fees of $138,500 and $84,500 in 2013 and 2012, respectively, related to the Freddie Mac Foundation are excluded because these fees are incurred and paid separately by the Freddie Mac Foundation.

(3) The 2013 and 2012 audit-related fees include fees billed by PricewaterhouseCoopers LLP for the performance of certain agreed-upon procedures regarding aspects of compliance with the Purchase Agreement covenants ($87,700 and $67,119, respectively), as well as the renewal of our Comperio subscription ($9,000 for each year). The 2013 audit-related fees also include fees billed by PricewaterhouseCoopers LLP for the performance of a compliance evaluation of the minimum servicing standards as set forth in the Uniform Single Attestation Program for Mortgage Bankers and the provision of an attestation report ($8,325).

(4) The tax fees billed in 2013 and 2012 related to non-audit tax advisory services to provide assistance with the Internal Revenue Service tax audit matters and ongoing examinations, including information requests and associated responses.

(5) All other fees for 2013 resulted from our subscription to a web-based suite of human resources benchmark data provided by PricewaterhouseCoopers LLP ($12,000).

Approval of Independent Auditor Services and Fees

As provided in its charter, the Audit Committee appoints, subject to FHFA approval, our independent public accounting firm and reviews the scope of the annual audit and pre-approves, subject (as required) to FHFA approval, all audit and non-audit services permitted under applicable law to be performed by the independent public accounting firm.

The Sarbanes-Oxley Act and related rules adopted by the SEC require that all services provided to companies subject to the reporting requirements of the Exchange Act by their independent auditors be pre-approved by their audit committee or by authorized members of the committee, with certain exceptions. The Audit Committee's charter requires that the Audit Committee pre-approve any audit services, and any non-audit services permitted under applicable law, to be performed by our independent auditors (or to designate one or more members of the Audit Committee to pre-approve such services and report such pre-approval to the Audit Committee).

Audit services that are within the scope of an auditor's engagement approved by the Audit Committee prior to the performance of those services are deemed pre-approved and do not require separate pre-approval. Audit services not within the scope of an Audit Committee-approved engagement, as well as permissible non-audit services, must be separately pre-approved by the Audit Committee.

When the Audit Committee pre-approves a service, the Audit Committee typically sets a dollar limit for such service. Management endeavors to obtain pre-approval of the Audit Committee, or of the Chairman of the Audit Committee (when the Chairman of the Audit Committee has been delegated such authority), before it incurs fees exceeding the dollar limit. If the Chairman of the Audit Committee approves the increase, the Chairman will report such approval at the Audit Committee's next scheduled meeting.

The pre-approval procedure is administered by our senior financial management, which reports throughout the year to the Audit Committee. The Audit Committee pre-approved all audit, audit-related, tax, and other services performed in 2013 and 2012.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Consolidated Financial Statements

The consolidated financial statements required to be filed in this Form 10-K are included in Part II, Item 8.

(2) Financial Statement Schedules

None.

(3) Exhibits

An Exhibit Index has been filed as part of this Form 10-K beginning on page E-1 and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 27, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Christopher S. Lynch* Christopher S. Lynch	Non-Executive Chairman of the Board	February 27, 2014
/s/ Donald H. Layton Donald H. Layton	Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2014
/s/ James G. Mackey James G. Mackey	Executive Vice President — Chief Financial Officer (Principal Financial Officer)	February 27, 2014
/s/ Robert D. Mailloux Robert D. Mailloux	Senior Vice President — Corporate Controller and Principal Accounting Officer (Principal Accounting Officer)	February 27, 2014
/s/ Carolyn H. Byrd* Carolyn H. Byrd	Director	February 27, 2014
/s/ Richard C. Hartnack* Richard C. Hartnack	Director	February 27, 2014
/s/ Steven W. Kohlhagen* Steven W. Kohlhagen	Director	February 27, 2014
/s/ Sara Mathew* Sara Mathew	Director	February 27, 2014
/s/ Saiyid T. Naqvi* Saiyid T. Naqvi	Director	February 27, 2014
/s/ Nicolas P. Retsinas* Nicolas P. Retsinas	Director	February 27, 2014
/s/ Eugene B. Shanks, Jr.* Eugene B. Shanks, Jr.	Director	February 27, 2014
/s/ Anthony A. Williams* Anthony A. Williams	Director	February 27, 2014

*By: /s/ William H. McDavid
William H. McDavid
Attorney-in-Fact

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GLOSSARY

This Glossary includes acronyms and defined terms that are used throughout this report.

1995 Employee Plan — 1995 Stock Compensation Plan, as amended

2004 Employee Plan — 2004 Stock Compensation Plan, as amended and restated June 6, 2008

2005-2008 Legacy single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated in 2005 through 2008.

Administration — Executive branch of the U.S. government.

Agency securities — Generally refers to mortgage-related securities issued by the GSEs or government agencies.

Alt-A loan — Although there is no universally accepted definition of Alt-A, many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. In determining our Alt-A exposure on loans underlying our single-family credit guarantee portfolio, we classified mortgage loans as Alt-A if the lender that delivers them to us classified the loans as Alt-A, or if the loans had reduced documentation requirements as well as a combination of certain credit characteristics and expected performance characteristics at acquisition which, when compared to full documentation loans in our portfolio, indicate that the loan should be classified as Alt-A. In the event we purchase a refinance mortgage in either our relief refinance mortgage initiative or in another mortgage refinance initiative and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A mortgage in this report and our other financial reports because the new refinance loan replacing the original loan would not be identified by the servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. For non-agency mortgage-related securities that are backed by Alt-A loans, we categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions.

AMT — Alternative Minimum Tax

AOCI — Accumulated other comprehensive income (loss), net of taxes

ARM — Adjustable-rate mortgage — A mortgage loan with an interest rate that adjusts periodically over the life of the mortgage loan based on changes in a benchmark index.

Board — Board of Directors

Bond insurers — Companies that provide credit insurance principally covering securitized assets in both the primary issuance and secondary markets.

BPs — Basis points — One one-hundredth of 1%. This term is commonly used to quote the yields of debt instruments or movements in interest rates.

Cash and other investments portfolio — Our cash and other investments portfolio is comprised of our cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and investments in non-mortgage-related securities.

CD&A — Compensation Discussion and Analysis

CEB — The Corporate Executive Board Company

CEO — Chief Executive Officer

CFO — Chief Financial Officer

Charter — The Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. § 1451 et seq.

CMBS — Commercial mortgage-backed security — A security backed by mortgages on commercial property (often including multifamily rental properties) rather than one-to-four family residential real estate. Although the mortgage pools underlying CMBS can include mortgages financing multifamily properties and commercial properties, such as office buildings and hotels, the classes of CMBS that we hold receive distributions of scheduled cash flows only from multifamily properties. Military housing revenue bonds are included as CMBS within investments-related disclosures. We have not identified CMBS as either subprime or Alt-A securities.

Comprehensive income (loss) — Consists of net income (loss) plus total other comprehensive income (loss).

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Conforming loan/Conforming jumbo loan/Conforming loan limit — A conventional single-family mortgage loan with an original principal balance that is equal to or less than the applicable statutory conforming loan limit, which is a dollar amount cap on the size of the original principal balance of single-family mortgage loans we are permitted by law to purchase or securitize. The conforming loan limit is determined annually based on changes in FHFA's housing price index. Any decreases in the housing price index are accumulated and used to offset any future increases in the housing price index so that statutory conforming loan limits do not decrease from year-to-year. Since 2006, the base conforming loan limit for a one-family residence has been set at $417,000, and higher limits have been established in certain "high-cost" areas (currently, up to $625,500 for a one-family residence). Higher limits also apply to two- to four-family residences, and for mortgages secured by properties in Alaska, Guam, Hawaii and the U.S. Virgin Islands. Actual high-cost area loan limits are set by FHFA for each county (or equivalent), and the loan limit for specific high-cost areas may be lower than the maximum amounts. We refer to loans that we have purchased with UPB exceeding the base conforming loan limit (i.e., $417,000) as conforming jumbo loans.

Beginning in 2008, pursuant to a series of laws, our loan limits in certain high-cost areas were increased temporarily above the limits that otherwise would have been applicable (up to $729,750 for a one-family residence). The latest of these increases expired on September 30, 2011.

Conservator — The Federal Housing Finance Agency, acting in its capacity as conservator of Freddie Mac.

Convexity — A measure of how much a financial instrument's duration changes as interest rates change.

Core spread income — Refers to a fair value estimate of the net current period accrual of income from the spread between mortgage-related investments and debt, calculated on an option-adjusted basis.

Covered Officer — Those executives in the following positions, each of whom are compensated pursuant to the Executive Management Compensation Program: (a) Chief Executive Officer; (b) Chief Operating Officer; (c) Chief Financial Officer; (d) all Executive Vice Presidents; and (e) all Senior Vice Presidents. Each of the Named Executive Officers is a Covered Officer.

Credit enhancement — Any number of different financial arrangements that are designed to reduce credit risk by partially or fully compensating an investor in the event of certain financial losses. Examples of credit enhancements include mortgage insurance, overcollateralization, indemnification agreements, and government guarantees.

Credit losses — Consists of charge-offs, net and REO operations expense.

Credit-related (benefit) expense (or credit-related expense) — Consists of our provision (benefit) for credit losses and REO operations expense.

Deed in lieu of foreclosure — An alternative to foreclosure in which the borrower voluntarily conveys title to the property to the lender and the lender accepts such title (sometimes together with an additional payment by the borrower) in full satisfaction of the mortgage indebtedness.

Delinquency — A failure to make timely payments of principal or interest on a mortgage loan. For single-family mortgage loans, we generally report delinquency rate information based on the number of loans that are seriously delinquent. For multifamily loans, we report delinquency rate information based on the UPB of loans that are two monthly payments or more past due or in the process of foreclosure.

Derivative — A financial instrument whose value depends upon the characteristics and value of an underlying financial asset or index, such as a security or commodity price, interest or currency rates, or other financial indices.

Directors' Plan — 1995 Directors' Stock Compensation Plan, as amended and restated

Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act.

Dollar roll transactions — Transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities.

DSCR — Debt Service Coverage Ratio — An indicator of future credit performance for multifamily loans. The DSCR estimates a multifamily borrower's ability to service its mortgage obligation using the secured property's cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its mortgage obligation.

Duration — Duration is a measure of a financial instrument's price sensitivity to changes in interest rates.

Duration gap — One of our primary interest-rate risk measures. Duration gap is a measure of the difference between the estimated durations of our interest rate sensitive assets and liabilities. We present the duration gap of our financial instruments in units expressed as months. A duration gap of zero implies that the change in value of our interest rate sensitive assets from an

instantaneous change in interest rates would be expected to be accompanied by an equal and offsetting change in the value of our debt and derivatives, thus leaving the net fair value of equity unchanged.
EDCP — Executive Deferred Compensation Plan
Effective rent — The average rent actually paid by the tenant over the term of a lease.
ESPP — Employee Stock Purchase Plan
Euribor — Euro Interbank Offered Rate
EVP — Executive Vice President
Exchange Act — Securities and Exchange Act of 1934, as amended
Executive Compensation Program — Executive Management Compensation Program, as amended and restated
Fannie Mae — Federal National Mortgage Association
FASB — Financial Accounting Standards Board
FDIC — Federal Deposit Insurance Corporation
Federal Reserve — Board of Governors of the Federal Reserve System
FHA — Federal Housing Administration
FHFA — Federal Housing Finance Agency — An independent agency of the U.S. government with responsibility for regulating Freddie Mac, Fannie Mae, and the FHLBs.
FHLB — Federal Home Loan Bank
FICO score — A credit scoring system developed by Fair, Isaac and Co. FICO scores are the most commonly used credit scores today. FICO scores are ranked on a scale of approximately 300 to 850 points with a higher value indicating a lower likelihood of credit default.
Fixed-rate mortgage — Refers to a mortgage originated at a specific rate of interest that remains constant over the life of the loan. For purposes of presentation in this report and elsewhere in our reporting, we have categorized a number of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust in the future, such future rates are determined at the time of the modification rather than at a subsequent date.
Foreclosure alternative — A workout option pursued when a home retention action is not successful or not possible. A foreclosure alternative is either a short sale or deed in lieu of foreclosure.
Foreclosure transfer — Refers to our completion of a transaction provided for by the foreclosure laws of the applicable state, in which a delinquent borrower's ownership interest in a mortgaged property is terminated and title to the property is transferred to us or to a third party. State foreclosure laws commonly refer to such transactions as foreclosure sales, sheriff's sales, or trustee's sales, among other terms. When we, as mortgage holder, acquire a property in this manner, we pay for it by extinguishing some or all of the mortgage debt.
Freddie Mac mortgage-related securities — Securities we issue and guarantee, including PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions.
GAAP — Generally accepted accounting principles in the United States of America.
Ginnie Mae — Government National Mortgage Association, which guarantees the timely payment of principal and interest on mortgage-related securities backed by federally insured or guaranteed loans, primarily those insured by FHA or guaranteed by the VA.
GSE Act — The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Reform Act.
GSEs — Government sponsored enterprises — Refers to certain legal entities created by the U.S. government, including Freddie Mac, Fannie Mae, and the FHLBs.
Guarantee fee — The fee that we receive for guaranteeing the payment of principal and interest to mortgage security investors, which consists primarily of a combination of management and guarantee fees paid on a monthly basis, as a percentage of the UPB of the underlying loans, and initial upfront payments, such as delivery fees.
Guidelines — Corporate Governance Guidelines, as revised

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HAMP — Home Affordable Modification Program — Refers to the effort under the MHA Program whereby the U.S. government, Freddie Mac and Fannie Mae commit funds to help eligible homeowners avoid foreclosure and keep their homes through mortgage modifications.

HARP — Home Affordable Refinance Program — Refers to the effort under the MHA Program that seeks to help eligible borrowers with existing loans that are guaranteed by us or Fannie Mae to refinance into loans with more affordable monthly payments and/or fixed-rate terms without obtaining new mortgage insurance in excess of what is already in place. Originally, only borrowers who had mortgages sold to Freddie Mac or Fannie Mae with note dates on or before May 31, 2009 with current LTV ratios above 80% (and up to 125%) were eligible to refinance their mortgages under the program. In October 2011, HARP was expanded to allow eligible borrowers who have mortgages with current LTV ratios above 125% to refinance under the program. The relief refinance initiative, under which we also allow borrowers with LTV ratios of 80% and below to participate, is our implementation of HARP for our loans.

HFA — State or local Housing Finance Agency

HFA initiative — An initiative among Treasury, FHFA, Freddie Mac, and Fannie Mae that commenced in 2009. Under the HFA initiative, we and Fannie Mae provide assistance to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. The HFA initiative includes the NIBP and the TCLFP.

HUD — U.S. Department of Housing and Urban Development —HUD has authority over Freddie Mac with respect to fair lending.

Implied volatility — A measurement of how the value of a financial instrument changes due to changes in the market's expectation of potential changes in future interest rates. A decrease in implied volatility generally increases the estimated fair value of our mortgage assets and decreases the estimated fair value of our callable debt and options-based derivatives, while an increase in implied volatility generally has the opposite effect.

Initial margin — The collateral that we post with a derivatives clearinghouse in order to do business with such clearinghouse. The amount of initial margin varies over time.

Interest-only loan — A mortgage loan that allows the borrower to pay only interest (either fixed-rate or adjustable-rate) for a fixed period of time before principal amortization payments are required to begin. After the end of the interest-only period, the borrower can choose to refinance the loan, pay the principal balance in total, or begin paying the monthly scheduled principal due on the loan.

IRS — Internal Revenue Service

K Certificates — Multifamily regularly-issued, structured pass-through securities backed primarily by recently originated multifamily mortgage loans purchased by Freddie Mac. We categorize K Certificates that we guarantee as Other Guarantee Transactions. See "Other Guarantee Transactions" for more information.

LIBOR — London Interbank Offered Rate

LIHTC partnerships — Low-income housing tax credit partnerships — Prior to 2008, we invested as a limited partner in LIHTC partnerships, which are formed for the purpose of providing funding for affordable multifamily rental properties. These LIHTC partnerships invest directly in limited partnerships that own and operate multifamily rental properties that generate federal income tax credits and deductible operating losses.

Liquidation preference — Generally refers to an amount that holders of preferred securities are entitled to receive out of available assets, upon liquidation of a company. The initial liquidation preference of our senior preferred stock was $1.0 billion. The aggregate liquidation preference of our senior preferred stock includes the initial liquidation preference plus amounts funded by Treasury under the Purchase Agreement. In addition, dividends and periodic commitment fees not paid in cash are added to the liquidation preference of the senior preferred stock. We may make payments to reduce the liquidation preference of the senior preferred stock only in limited circumstances.

LTV ratio — Loan-to-value ratio — The ratio of the unpaid principal amount of a mortgage loan to the value of the property that serves as collateral for the loan, expressed as a percentage. Loans with high LTV ratios generally tend to have a higher risk of default and, if a default occurs, a greater risk that the amount of the gross loss will be high compared to loans with lower LTV ratios. We report LTV ratios based solely on the amount of the loan purchased or guaranteed by us, generally excluding any second-lien mortgages (unless we own or guarantee the second lien).

MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations

MHA Program — Making Home Affordable Program — Formerly known as the Housing Affordability and Stability Plan, the MHA Program was announced by the Administration in February 2009. The MHA Program is designed to help in the housing

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recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts and set market standards. The MHA Program includes HARP and HAMP.

Mortgage assets — Refers to both mortgage loans and the mortgage-related securities we hold in our mortgage-related investments portfolio.

Mortgage-related investments portfolio — Our investment portfolio, which consists of mortgage-related securities and single-family and multifamily mortgage loans. The size of our mortgage-related investments portfolio under the Purchase Agreement is determined without giving effect to the January 1, 2010 change in accounting guidance related to transfers of financial assets and consolidation of VIEs. Accordingly, for purposes of the portfolio limit, when PCs and certain Other Guarantee Transactions are purchased into the mortgage-related investments portfolio, this is considered the acquisition of assets rather than the reduction of debt.

Mortgage-to-debt OAS — The net OAS between the mortgage and agency debt sectors. This is an important factor in determining the expected level of net interest yield on a new mortgage asset. Higher mortgage-to-debt OAS means that a newly purchased mortgage asset is expected to provide a greater return relative to the cost of the debt issued to fund the purchase of the asset and, therefore, a higher net interest yield. Mortgage-to-debt OAS tends to be higher when there is weak demand for mortgage assets and lower when there is strong demand for mortgage assets.

Multifamily mortgage — A mortgage loan secured by a property with five or more residential rental units.

Multifamily mortgage portfolio — Consists of multifamily mortgage loans held by us on our consolidated balance sheets as well as our guarantee of non-consolidated Freddie Mac mortgage-related securities, and other guarantee commitments, but excluding those underlying our guarantees of HFA bonds under the HFA initiative.

Net worth (deficit) — The amount by which our total assets exceed (or are less than) our total liabilities as reflected on our consolidated balance sheets prepared in conformity with GAAP.

Net worth sweep dividend, Net Worth Amount, and Capital Reserve Amount — For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment on the senior preferred stock will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as: (a) the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less; (b) our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend shall accrue or be payable for that quarter. The applicable Capital Reserve Amount was $3 billion for 2013, will be $2.4 billion for 2014, and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero.

New single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated in 2009 to 2013, excluding HARP and other relief refinance mortgages. We do not include relief refinance mortgages, including HARP loans, as underwriting procedures for relief refinance mortgages are limited, and, in many cases, do not include all of the changes in underwriting standards we have implemented since 2008.

NIBP — New Issue Bond Program is a component of the HFA initiative in which we and Fannie Mae issued partially-guaranteed pass-through securities to Treasury that are backed by bonds issued by various state and local HFAs. The program provides financing for HFAs to issue new housing bonds. Treasury is obligated to absorb any losses under the program up to a certain level before we are exposed to any losses.

Non-performing loan — Single-family and multifamily loans that have undergone a TDR, single-family seriously delinquent loans, multifamily loans that are three or more payments past due or in the process of foreclosure, and multifamily loans that are deemed impaired based on management judgment.

NPV — Net present value

NYSE — New York Stock Exchange

OAS — Option-adjusted spread — An estimate of the incremental yield spread between a particular financial instrument (e.g., a security, loan or derivative contract) and a benchmark yield curve (e.g., LIBOR or agency or U.S. Treasury securities). This includes consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options.

OFHEO — Office of Federal Housing Enterprise Oversight, the predecessor to FHFA.

Option ARM loan — Mortgage loans that permit a variety of repayment options, including minimum, interest-only, fully amortizing 30-year and fully amortizing 15-year payments. The minimum payment alternative for option ARM loans allows the

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borrower to make monthly payments that may be less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance. For our non-agency mortgage-related securities that are backed by option ARM loans, we categorize securities as option ARM if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM securities as either subprime or Alt-A securities.

Original LTV Ratio — A credit measure for mortgage loans, calculated as the UPB of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower’s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation. The existence of a second-lien mortgage reduces the borrower’s equity in the home and, therefore, can increase the risk of default and the amount of the gross loss if a default occurs.

OTC — Over-the-counter

OTCQB — A marketplace, operated by the OTC Markets Group Inc., for OTC-traded U.S. companies that are registered and current in their reporting with the SEC or a U.S. banking or insurance regulator.

Other guarantee commitments — Mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.

Other Guarantee Transactions — Transactions in which third parties transfer non-Freddie Mac mortgage-related securities to trusts specifically created for the purpose of issuing mortgage-related securities, or certificates. See "K Certificates" for more information. We exclude our securitizations of Ginnie Mae securities and tax-exempt multifamily housing revenue bonds from this classification.

PCs — Participation Certificates — Securities that we issue as part of a securitization transaction. Typically we purchase mortgage loans from parties who sell mortgage loans, place a pool of loans into a PC trust and issue PCs from that trust. The PCs are generally transferred to the seller of the mortgage loans in consideration of the loans or are sold to third-party investors if we purchased the mortgage loans for cash.

Pension Plan — Employees’ Pension Plan

Pension SERP Benefit — The component of the SERP that relates to the Pension Plan.

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

Pre-2005 Legacy single-family book — Consists of mortgage loans in our single-family credit guarantee portfolio that were originated in 2004 and prior.

Primary mortgage market — The market where lenders originate mortgage loans and lend funds to borrowers. We do not lend money directly to homeowners and do not participate in this market.

Purchase Agreement / Senior Preferred Stock Purchase Agreement — An agreement the Conservator, acting on our behalf, entered into with Treasury on September 7, 2008, which was subsequently amended and restated on September 26, 2008 and further amended on May 6, 2009, December 24, 2009, and August 17, 2012.

Recorded Investment — The dollar amount of a loan recorded on our consolidated balance sheets, excluding any valuation allowance, such as the allowance for loan losses, but which does reflect direct write-downs of the investment. For mortgage loans, direct write-downs consist of valuation allowances associated with recording our initial investment in loans acquired with evidence of credit deterioration at the time of purchase. Recorded investment excludes accrued interest income.

Reform Act — The Federal Housing Finance Regulatory Reform Act of 2008, which, among other things, amended the GSE Act by establishing a single regulator, FHFA, for Freddie Mac, Fannie Mae, and the FHLBs.

REIT — Real estate investment trust

Relief refinance mortgage — A single-family mortgage loan delivered to us for purchase or guarantee that meets the criteria of the Freddie Mac Relief Refinance Mortgage[sm] initiative. Part of this initiative is our implementation of HARP for our loans, and relief refinance options are also available for certain non-HARP loans. Although HARP is targeted at borrowers with current LTV ratios above 80%, our initiative also allows borrowers with LTV ratios of 80% and below to participate.

REMIC — Real Estate Mortgage Investment Conduit — A type of multiclass mortgage-related security that divides the cash flows (principal and interest) of the underlying mortgage-related assets into two or more classes that meet the investment criteria and portfolio needs of different investors.

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REMICs and Other Structured Securities (or in the case of Multifamily securities, Other Structured Securities) — Single- and multiclass securities issued by Freddie Mac that represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. REMICs and Other Structured Securities that are single-class securities pass through the cash flows (principal and interest) on the underlying mortgage-related assets. REMICs and Other Structured Securities that are multiclass securities divide the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors. Our principal multiclass securities qualify for tax treatment as REMICs. We include our securitizations of Ginnie Mae securities and tax-exempt multifamily housing revenue bonds in this classification.
REO — Real estate owned — Real estate which we have acquired through foreclosure or through a deed in lieu of foreclosure.
RSU — Restricted stock unit
S&P — Standard & Poor's
SEC — Securities and Exchange Commission
Secondary mortgage market — A market consisting of institutions engaged in buying and selling mortgages in the form of whole loans (i.e., mortgages that have not been securitized) and mortgage-related securities. We participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities, principally PCs.
Senior preferred stock — The shares of Variable Liquidation Preference Senior Preferred Stock issued to Treasury under the Purchase Agreement.
Seriously delinquent — Single-family mortgage loans that are three monthly payments or more past due or in the process of foreclosure as reported to us by our servicers.
SERP — Supplemental Executive Retirement Plan
Short sale — Typically an alternative to foreclosure consisting of a sale of a mortgaged property in which the homeowner sells the home at market value and the lender accepts proceeds (sometimes together with an additional payment or promissory note from the borrower) that are less than the outstanding mortgage indebtedness in full satisfaction of the loan.
Single-family credit guarantee portfolio — Consists of unsecuritized single-family loans, single-family loans held by consolidated trusts, and single-family loans underlying non-consolidated Other Guarantee Transactions and loans covered by other guarantee commitments. Excludes our REMICs and Other Structured Securities that are backed by Ginnie Mae Certificates and our guarantees under the HFA initiative.
Single-family mortgage — A mortgage loan secured by a property containing four or fewer residential dwelling units.
Spread — The difference between the yields of two debt securities, or the difference between the yield of a debt security and a benchmark yield, such as LIBOR.
STACR — Structured Agency Credit Risk transaction, in which we issue and sell debt securities, the principal balance of which is subject to the credit and prepayment risk of a reference pool of single-family mortgage loans owned or guaranteed by Freddie Mac.
Strips — Mortgage pass-through securities created by separating the principal and interest payments on a pool of mortgage loans. A principal-only strip entitles the security holder to principal cash flows, but no interest cash flows, from the underlying mortgages. An interest-only strip entitles the security holder to interest cash flows, but no principal cash flows, from the underlying mortgages.
Subprime — Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Subprime generally refers to the credit risk classification of a loan. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include, among other factors, a combination of high LTV ratios, low credit scores or originations using lower underwriting standards, such as limited or no documentation of a borrower's income. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of

credit risk. Notwithstanding our historical characterizations of the single family credit guarantee portfolio, certain security collateral underlying our Other Guarantee Transactions has been identified as subprime based on information provided to Freddie Mac when the transactions were entered into. We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions.

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SVP — Senior Vice President
Swaption — An option contract to enter into an interest-rate swap. In exchange for an option premium, a buyer obtains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.
Target TDC — Target total direct compensation
TBA — To be announced
TCLFP — Temporary Credit and Liquidity Facility Program is a component of the HFA initiative in which we and Fannie Mae issued credit and liquidity guarantees to holders of variable-rate demand obligations issued by various state and local HFAs. Treasury is obligated to absorb any losses under the program up to a certain level before we are exposed to any losses. The program was scheduled to expire on December 31, 2012. However, Treasury gave participants the option to extend their individual TCLFP facilities to December 31, 2015. Certain participants elected to extend their TCLFP facilities to December 2015.
TDR — Troubled debt restructuring — A type of loan modification in which the changes to the contractual terms result in concessions to borrowers that are experiencing financial difficulties. Beginning in the third quarter of 2012, TDRs also include single-family loans discharged in Chapter 7 bankruptcy, regardless of the borrowers' payment status.
Thrift/401(k) SERP Benefit — The component of the SERP that relates to the Thrift/401(k) Savings Plan.
Total other comprehensive income (loss) (or other comprehensive income (loss)) — Consists of the after-tax changes in: (a) the unrealized gains and losses on available-for-sale securities; (b) the effective portion of derivatives accounted for as cash flow hedge relationships; and (c) defined benefit plans.
Total mortgage portfolio — Includes mortgage loans and mortgage-related securities held on our consolidated balance sheets as well as the balances of our non-consolidated issued and guaranteed single-class and multiclass securities, and other mortgage-related financial guarantees issued to third parties.
Treasury — U.S. Department of the Treasury
UPB — Unpaid principal balance
USDA — U.S. Department of Agriculture
VA — U.S. Department of Veterans Affairs
Variation margin — Payments we make to or receive from a derivatives clearinghouse based on the change in fair value of a derivative instrument. Variation margin is typically transferred within one business day.
VIE — Variable Interest Entity — A VIE is an entity: (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party; or (b) where the group of equity holders does not have: (i) the ability to make significant decisions about the entity's activities; (ii) the obligation to absorb the entity's expected losses; or (iii) the right to receive the entity's expected residual returns.
Warrant — Refers to the warrant we issued to Treasury on September 7, 2008 pursuant to the Purchase Agreement. The warrant provides Treasury the ability to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of Freddie Mac common stock outstanding on a fully diluted basis on the date of exercise.
Workout, or loan workout — A workout is either: (a) a home retention action, which is either a loan modification, repayment plan, or forbearance agreement; or (b) a foreclosure alternative, which is either a short sale or a deed in lieu of foreclosure.
XBRL — eXtensible Business Reporting Language
Yield curve — A graphical display of the relationship between yields and maturity dates for bonds of the same credit quality. The slope of the yield curve is an important factor in determining the level of net interest yield on a new mortgage asset, both initially and over time. For example, if a mortgage asset is purchased when the yield curve is inverted (i.e., short-term interest rates higher than long-term interest rates), our net interest yield on the asset will tend to be lower initially and then increase over time. Likewise, if a mortgage asset is purchased when the yield curve is steep (i.e., short-term interest rates lower than long-term interest rates), our net interest yield on the asset will tend to be higher initially and then decrease over time.

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EXHIBIT INDEX

Exhibit No.	Description*
3.1	Federal Home Loan Mortgage Corporation Act (12 U.S.C. §1451 et seq.), as amended through July 21, 2010 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, as filed on August 9, 2010)
3.2	Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated December 20, 2012 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K as filed on December 20, 2012)
4.1	Eighth Amended and Restated Certificate of Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Voting Common Stock (no par value per share) dated September 10, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K as filed on September 11, 2008)
4.2	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated April 23, 1996 (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.3	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 27, 1997 (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.4	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 1998 (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.5	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 23, 1998 (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.6	Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 29, 1998 (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.7	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.3% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 28, 1998 (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.8	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 19, 1999 (incorporated by reference to Exhibit 4.8 to the Registrant's

	Registration Statement on Form 10 as filed on July 18, 2008)
4.9	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.79% Non-Cumulative Preferred Stock (par value $1.00 per share), dated July 21, 1999 (incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.10	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated November 5, 1999 (incorporated by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.11	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 26, 2001 (incorporated by reference to Exhibit 4.11 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.12	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.13	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.13 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.14	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.14 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)

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Exhibit No.	Description*
4.15	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6% Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.15 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.16	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.7% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 30, 2001 (incorporated by reference to Exhibit 4.16 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.17	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 29, 2002 (incorporated by reference to Exhibit 4.17 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.18	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.18 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.19	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.42% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.19 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.20	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.9% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated October 16, 2006 (incorporated by reference to Exhibit 4.20 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.21	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.57% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated January 16, 2007 (incorporated by reference to Exhibit 4.21 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.22	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.66% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated April 16, 2007 (incorporated by reference to Exhibit 4.22 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.23	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.02% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 24, 2007 (incorporated by reference to Exhibit 4.23 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
4.24	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.55% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated September 28, 2007 (incorporated by reference to Exhibit 4.24 to the

	Registrant’s Registration Statement on Form 10 as filed on July 18, 2008)
4.25	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated December 4, 2007 (incorporated by reference to Exhibit 4.25 to the Registrant’s Registration Statement on Form 10 as filed on July 18, 2008)
4.26	Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated September 27, 2012 (incorporated by reference to Exhibit 4.26 to the Registrant’s Annual Report on Form 10-K as filed on February 28, 2013)
4.27	Federal Home Loan Mortgage Corporation Global Debt Facility Agreement, dated March 1, 2013 (incorporated by reference to Exhibit 4.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013, as filed on May 8, 2013)
10.1	Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (as amended and restated as of June 6, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant’s Registration Statement on Form 10 as filed on July 18, 2008)†
10.2	First Amendment to the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registrant’s Registration Statement on Form 10 as filed on July 18, 2008)†
10.3	Second Amendment to the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, as filed on August 7, 2009)†
10.4	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on and after March 4, 2005 but prior to January 1, 2006 (incorporated by reference to Exhibit 10.3 to the Registrant’s Registration Statement on Form 10 as filed on July 18, 2008)†

Exhibit No.	Description*
10.5	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on and after January 1, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.6	Federal Home Loan Mortgage Corporation Global Amendment to Affected Stock Options under Nonqualified Stock Option Agreements and Separate Dividend Equivalent Rights, effective December 31, 2005 (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.7	Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.8	First Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.9	Second Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.10	Third Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.13 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.11	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.12	Federal Home Loan Mortgage Corporation Employee Stock Purchase Plan (as amended and restated as of January 1, 2005) (incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.13	Federal Home Loan Mortgage Corporation 1995 Directors' Stock Compensation Plan (as amended and restated June 8, 2007) (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.14	Federal Home Loan Mortgage Corporation Directors' Deferred Compensation Plan (as amended and restated April 3, 1998) (incorporated by reference to Exhibit 10.25 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.15	First Amendment to the Federal Home Loan Mortgage Corporation Directors' Deferred Compensation Plan (as amended and restated April 3, 1998) (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed on March 11, 2009)†
10.16	Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.28 to the Registrant's

	Registration Statement on Form 10 as filed on July 18, 2008)†
10.17	First Amendment to the Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)†
10.18	Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.33 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.19	First Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (As Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)†
10.20	Second Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on June 28, 2011)†
10.21	Third Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q as filed on November 6, 2012)†
10.22	Fourth Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (As Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q as filed on August 7, 2013) †

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Exhibit No.	Description*
10.23	Fifth Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on October 25, 2013) †
10.24	Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.25	First Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.35 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.26	Second Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.36 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)†
10.27	Executive Management Compensation Program (as amended and restated as of June 2, 2011) (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, as filed on August 8, 2011)†
10.28	Federal Home Loan Mortgage Corporation Mandatory Executive Deferred Base Salary Plan, Effective as of January 1, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)†
10.29	First Amendment To The Federal Home Loan Mortgage Corporation Mandatory Executive Deferred Base Salary Plan (As Effective January 1, 2009) (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, as filed on August 8, 2011)†
10.30	Second Amendment To The Federal Home Loan Mortgage Corporation Mandatory Executive Deferred Base Salary Plan (As Effective January 1, 2009) (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, as filed on August 7, 2012)†
10.31	Executive Management Compensation Recapture Policy (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, as filed on December 24, 2009)†
10.32	2012 Executive Management Compensation Program Recapture and Forfeiture Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q as filed on November 6, 2012)†
10.33	2013 Executive Management Compensation Program for Virginia-Based Covered Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on June 12, 2013) †
10.34	2013 Executive Management Compensation Program for Non-Virginia-Based Covered Officers (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on

	June 12, 2013) †
10.35	2013 Executive Management Compensation Program Recapture and Forfeiture Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K as filed on June 12, 2013) †
10.36	2014 Executive Management Compensation Program for Virginia-Based Covered Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on December 10, 2013) †
10.37	2014 Executive Management Compensation Program for Non-Virginia-Based Covered Officers (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on December 10, 2013) †
10.38	Memorandum Agreement, dated May 7, 2012, between Freddie Mac and Donald H. Layton (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on May 10, 2012)†
10.39	Restrictive Covenant and Confidentiality Agreement, dated May 7, 2012, between Freddie Mac and Donald H. Layton (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on May 10, 2012)†
10.40	Memorandum Agreement, dated September 24, 2013, between Freddie Mac and James Mackey (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on September 30, 2013) †
10.41	Restrictive Covenant and Confidentiality Agreement, dated September 25, 2013, between Freddie Mac and James Mackey (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, as filed on September 30, 2013) †
10.42	Memorandum Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on September 24, 2009)†

Exhibit No.	Description*
10.43	Recapture Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, as filed on September 24, 2009)†
10.44	Restrictive Covenant and Confidentiality Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)†
10.45	Restrictive Covenant and Confidentiality Agreement, dated October 15, 2004, between Freddie Mac and Jerry Weiss (incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, as filed on March 9, 2012)†
10.46	Memorandum Agreement, dated July 3, 2012, between Freddie Mac and William H. McDavid (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on July 9, 2012)†
10.47	Restrictive Covenant and Confidentiality Agreement, dated July 6, 2012, between Freddie Mac and William H. McDavid (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, as filed on July 9, 2012)†
10.48	Memorandum Agreement, dated April 7, 2013, between Freddie Mac and David B. Lowman†
10.49	Restrictive Covenant and Confidentiality Agreement, dated April 9, 2013, between Freddie Mac and David B. Lowman†
10.50	Description of non-employee director compensation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed on December 23, 2008)†
10.51	PC Master Trust Agreement dated October 24, 2013 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q as filed on November 7, 2013)
10.52	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and executive officers (for agreements with officers entered into prior to August 2011) and outside Directors (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on December 23, 2008)†
10.53	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and executive officers (for agreements with officers entered into beginning in August 2011) (incorporated by reference to Exhibit 10.54 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, as filed on March 9, 2012)†
10.54	Consent of Defendant Federal Home Loan Mortgage Corporation with the Securities and Exchange Commission, dated September 18, 2007 (incorporated by reference to Exhibit 10.65 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)
10.55	Letters, dated September 1, 2005, setting forth an agreement between Freddie Mac and FHFA (incorporated by reference to Exhibit 10.67 to the Registrant's Registration Statement on Form 10 as filed on July 18, 2008)

10.56	Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
10.57	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2009, as filed on May 12, 2009)
10.58	Second Amendment dated as of December 24, 2009, to the Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on December 29, 2009)
10.59	Third Amendment dated as of August 17, 2012, to the Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on August 17, 2012)
10.60	Warrant to Purchase Common Stock, dated September 7, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed on September 11, 2008)

Exhibit No.	Description*
10.61	Memorandum of Understanding Among the Department of Treasury, the Federal Housing Finance Agency, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, dated October 19, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, as filed on October 23, 2009)
10.62	Omnibus Consent to HFA Initiative Program Modifications, dated November 23, 2011, among the U.S. Department of the Treasury, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal Housing Finance Agency (incorporated by reference to Exhibit 10.62 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, as filed on March 9, 2012)
12.1	Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends
24.1	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

* The SEC file numbers for the Registrant's Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are 000-53330 and 001-34139.

† This exhibit is a management contract or compensatory plan or arrangement.