

FEDERAL HOME LOAN MORTGAGE CORP

Form 10-Q

November 06, 2014

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-34139

Federal Home Loan Mortgage Corporation

(Exact name of registrant as specified in its charter)

Freddie Mac

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 23, 2014, there were 650,040,391 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

We continue to operate under the conservatorship that commenced on September 6, 2008, under the direction of FHFA as our Conservator. The Conservator succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any shareholder, officer or director thereof, with respect to the company and its assets. The Conservator has delegated certain authority to our Board of Directors to oversee, and management to conduct, 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. See “BUSINESS — Conservatorship and Related Matters” in our Annual Report on Form 10-K for the year ended December 31, 2013, or 2013 Annual Report, for information on the terms of the conservatorship, the powers of the Conservator, and related matters, including the terms of our Purchase Agreement with Treasury.

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in: (a) the “FORWARD-LOOKING STATEMENTS” sections of this Form 10-Q, our 2013 Annual Report, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014; and (b) the “RISK FACTORS” and “BUSINESS” sections of our 2013 Annual Report.

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

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

You should read this MD&A in conjunction with our consolidated financial statements and related notes for the three and nine months ended September 30, 2014 included in “FINANCIAL STATEMENTS” and our 2013 Annual Report.

EXECUTIVE SUMMARY

Overview

Freddie Mac is a GSE chartered by Congress in 1970 with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. We have maintained a consistent market presence since our inception, providing 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 cannot over the long term 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 “BUSINESS — Conservatorship and Related Matters” and “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” in our 2013 Annual Report.

Consolidated Financial Results

During the third quarter of 2014, home price growth continued to moderate compared to the first nine months of 2013. Comprehensive income was \$2.8 billion for the third quarter of 2014 compared to \$30.4 billion for the third quarter of

2013. Comprehensive income for the third quarter of 2014 consisted of \$2.1 billion of net income and \$0.7 billion of other comprehensive income. Our results for the third quarter of 2014 include: (a) net interest income; (b) provision for credit losses; and (c) settlements of lawsuits regarding our investments in certain residential non-agency mortgage-related securities. Our net income for the third quarter of 2013 includes a benefit for federal income taxes of \$23.9 billion that resulted from the release of our valuation allowance against our net deferred tax assets. Our total equity was \$5.2 billion at September 30, 2014. As a result of our positive net worth at September 30, 2014, no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2014. Through September 30, 2014, we have paid aggregate cash dividends to Treasury in an amount that

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exceeds our aggregate draws received under the Purchase Agreement by \$16.8 billion. At September 30, 2014, our aggregate funding received from Treasury under the Purchase Agreement was \$71.3 billion.

Sustainability of Earnings

The level of earnings we have experienced in 2013 and 2014 is not sustainable over the long term. Our 2013 financial results included a significant benefit related to the release of the deferred tax asset valuation allowance. As a result, we no longer maintain a valuation allowance against our deferred tax asset. Additionally, our 2013 and 2014 financial results included settlements of representation and warranty claims and of residential non-agency mortgage-related securities litigation. We do not expect future settlements, if any, of representation and warranty claims related to pre-conservatorship loan originations to have a significant effect on our financial results. Our recent financial results, particularly the level of loan loss provisioning, also benefited significantly from strong home price appreciation, which is moderating. In addition, declines in the size of our mortgage-related investments portfolio, as required by FHFA and the Purchase Agreement with Treasury, will reduce earnings over the long term. Our financial results will also continue to be affected by changes in interest rates, yield curves, implied volatility, and mortgage spreads (which impact both derivatives and mortgage-related securities held by us), and therefore are subject to significant earnings and net worth variability from period to period.

Our Primary Business Objectives

Our business objectives reflect direction that we have received from the Conservator. 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.”

On May 13, 2014, FHFA issued its 2014 Strategic Plan and the 2014 Conservatorship Scorecard. The 2014 Strategic Plan provides an updated vision for FHFA's implementation of its obligations as conservator of Freddie Mac and Fannie Mae (the “Enterprises”), and establishes three reformulated strategic goals: (a) maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets; (b) reduce taxpayer risk through increasing the role of private capital in the mortgage market; and (c) build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future. The 2014 Conservatorship Scorecard establishes objectives and performance targets and measures for 2014 for the Enterprises related to the strategic goals set forth in the 2014 Strategic Plan. For more information, see “LEGISLATIVE AND REGULATORY MATTERS — FHFA's 2014 Strategic Plan for the Conservatorships of Freddie Mac and Fannie Mae and the 2014 Conservatorship Scorecard” in our Form 10-Q for the quarter ended June 30, 2014 and our current report on Form 8-K dated May 14, 2014.

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

We are working diligently with FHFA to reduce the taxpayers' exposure and improve the return on the taxpayers' investment. 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 over time. The 2005-2008 Legacy single-family book represented 14% of our single-family credit guarantee portfolio at September 30, 2014, but comprised 83% of our credit losses in the first nine months of 2014. We are also continuing to reduce our exposure to credit risk in our New single-family book with STACR debt note and ACIS transactions. These transactions shift a portion of the mezzanine credit loss position on certain groups of loans in the New single-family book from us to third-party investors.

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 a foreclosure or a foreclosure alternative. Since 2009, we have helped approximately 1,047,000 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. Across all of our modification programs, we modified \$10.1 billion and \$12.8 billion in UPB of loans in the nine months ended September 30, 2014 and 2013, respectively. 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. 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 the nine

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months ended September 30, 2014 and 2013, we purchased or guaranteed \$21.6 billion and \$86.6 billion in UPB of relief refinance loans, respectively, which included \$11.6 billion and \$54.9 billion in UPB of HARP loans, respectively. We have purchased HARP loans provided to more than 1.3 million borrowers since the initiative began in 2009, including approximately 67,000 borrowers during the nine months ended September 30, 2014. See “Table 33 — Single-Family Relief Refinance Loans” for more information about the volume of our relief refinance purchases. As of September 30, 2014, the borrower’s monthly payment for all of our completed HAMP modifications was reduced on average by an estimated \$500 at the time of modification, which amounts to an average of \$6,000 per year, and a total of \$1.6 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).

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

Table 1 — Total Single-Family Loan Workout Volumes

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. As of September 30, 2014, approximately 23,000 borrowers were in modification trial periods, including approximately 20,000 borrowers in trial periods for our non-HAMP modification programs. Also excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, (1) but that 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. Forbearance agreements exclude 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 separate periods. As shown in the table above, the volume of our workout programs declined in recent quarterly periods, which we attribute to overall improvements in the mortgage market as evidenced by rising home prices and declining serious delinquency rates. While we believe our home retention programs have been largely successful, many borrowers still need our assistance. See “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. Under the 2014 Conservatorship Scorecard, FHFA set goals

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for us relating to: (a) encouraging eligible borrowers to refinance their mortgages under HARP; and (b) assessing and developing additional plans for loss mitigation strategies. In June 2014, FHFA announced that it would begin a nationwide outreach campaign. This campaign includes open forum meetings with participation from us and Fannie Mae, in certain cities, to inform community leaders about HARP eligibility criteria and benefits.

Under the 2014 Conservatorship Scorecard, FHFA set a goal for us to develop and implement a plan for targeted sales of non-performing loans and REO properties that facilitate neighborhood stabilization, especially in markets that have been hardest hit by the housing downturn. In 2014, we worked with FHFA and Fannie Mae to develop a plan for both short sales and REO sales, including expanded auctions of properties, in certain cities that were hardest hit by the housing crisis. In these areas we have also: (a) expanded our efforts with locally-based private entities to facilitate REO dispositions; and (b) expanded our first look opportunities, which provide an initial period for REO properties to be purchased by owner occupants and non-profits dedicated to neighborhood stabilization before permitting investors to make offers. We are also assessing or piloting other new strategies for loss mitigation with FHFA and Fannie Mae, including implementing a temporary new modification initiative targeted to assist troubled borrowers in certain cities.

Maximizing the Proceeds from Short Sales and REO Sales

In cases where repayment plans and loan modifications are not possible or not 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: (a) avoid the costs we would otherwise incur to complete the foreclosure; and (b) reduce the time needed to dispose of the property, and thus reduce our exposure to maintenance, property taxes, and other expenses associated with holding REO property.

We believe our REO disposition and short sale severity ratios in the nine months ended September 30, 2014 benefited from improved market conditions as well as changes made since 2012 to our process for evaluating the market value of impaired loan collateral and determining the list price for our REO properties when we offer them for sale. In addition, we believe that our REO disposition ratios have been positively affected by our efforts to repair a greater number of these properties prior to listing them for sale than in the past.

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. Beginning in 2013, we increased our review of servicing related violations, which included issuing notices of defect to our servicers for certain violations of our servicing standards. As of September 30, 2014, we had: (a) \$0.4 billion of outstanding repurchase requests for servicing related violations; and (b) an additional \$0.2 billion of outstanding notices of defect, with our servicers, based on the UPB of the related loans. We also recognized \$292 million of compensatory fees in the nine months ended September 30, 2014, primarily for servicer failures to complete a foreclosure within our timelines.

The serious delinquency rate of our single-family credit guarantee portfolio declined to 1.96% as of September 30, 2014 (which is the lowest level since January 2009) from 2.39% as of December 31, 2013, continuing the trend of improvement that began in 2010. However, 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 September 30, 2014, we held investments in \$33.2 billion of seriously delinquent single-family mortgage loans, approximately half of which have been delinquent for more than one year.

Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. As of September 30, 2014, our serious delinquency rates for the aggregate of those states that require a judicial foreclosure and those not requiring a judicial foreclosure were 2.72% and 1.33%, respectively. During the nine months ended September 30, 2014, the average time to foreclose on properties in states that require a judicial foreclosure was 1,025 days compared to 661 days in those states not requiring a judicial foreclosure for loans in our single-family credit guarantee portfolio, excluding those underlying our Other Guarantee Transactions. These averages are based on the loans that completed foreclosure during the period.

During the nine months ended September 30, 2014, excluding transfers between affiliated companies and assignments of servicing for newly originated loans, approximately \$8.5 billion in UPB of loans in our single-family credit guarantee portfolio were transferred from our primary servicers to specialty servicers that specialize in workouts of problem loans. Approximately \$5.4 billion in UPB of loans in these transfers were facilitated by us as part of our efforts to assist troubled borrowers, maximize foreclosure alternatives, increase problem loan workouts, and mitigate our credit losses.

Pursuing Our Rights with Our Sellers

We have contractual arrangements with our sellers under which, when they sell us mortgage loans, they represent and warrant that those loans have been originated in accordance with specified underwriting standards. If we subsequently discover

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that the representations and warranties were breached (i.e., that underwriting 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. In 2013, we substantially achieved the goal set 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. As a result, there has been a decline in our exposure to single-family mortgage seller/servicers for repurchase obligations arising from breaches of representations and warranties made to us for loans they underwrote and sold to us. As of September 30, 2014 and December 31, 2013, we had \$0.4 billion and \$1.6 billion, respectively, of outstanding repurchase requests with sellers, based on UPB of the loans.

We continue to seek remedies 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 the nine months ended September 30, 2014, we recovered amounts from seller/servicers with respect to \$1.7 billion in UPB of loans subject to our repurchase requests for selling and servicing violations, including \$0.4 billion in UPB related to settlement agreements. Approximately 19% of the \$1.7 billion in UPB associated with resolved repurchase requests in the nine months ended September 30, 2014 were satisfied by the reimbursement of losses (excluding amounts related to settlement agreements).

In May 2014, at the direction of FHFA, we announced certain changes to our representation and warranty framework for loans acquired on and after July 1, 2014. On October 20, 2014, FHFA announced an agreement in principle concerning changes to Freddie Mac's and Fannie Mae's representation and warranty frameworks. See "LEGISLATIVE AND REGULATORY MATTERS — FHFA Announcements Concerning Representation and Warranty Framework and High LTV Mortgage Loans."

Enforcing Our Rights with Other Counterparties

We continue to pursue claims for coverage under mortgage insurance policies. 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 mortgages with LTV ratios greater than 80%, from an insurer that is typically selected by the lender.

We received payments under primary and other mortgage insurance of \$1.0 billion and \$1.6 billion during the nine months ended September 30, 2014 and 2013, respectively. Although the financial condition of certain of our mortgage insurers has improved in recent quarters, there is still significant risk that some of these counterparties may fail to fully meet their obligations. We expect to receive substantially less than full payment of our claims from one of our top five mortgage insurance counterparties, as it is only permitted to partially pay claims under orders from its regulator.

Our ability to manage our exposure to mortgage insurers is 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 requires FHFA approval under certain circumstances. We consider the collectability of our claims against our mortgage insurers when determining the carrying amount of our receivables and estimating our loan loss reserves on our consolidated balance sheets.

Aligning mortgage insurer eligibility requirements is a key component of the 2014 Conservatorship Scorecard and the 2014 Strategic Plan. We are developing counterparty risk management standards for mortgage insurers, in conjunction with Fannie Mae, at the direction of FHFA, consisting of the following: (a) revised eligibility requirements, which include financial requirements under a risk-based framework; and (b) revised master policies that provide greater certainty of coverage and facilitate timely claims processing. The revised standards are designed to provide that mortgage insurers are able to withstand a stress economic scenario and fulfill their intended role of providing private capital to the mortgage market. Revised master policies with our mortgage insurance counterparties were implemented on October 1, 2014. FHFA published draft eligibility requirements for public input during a comment period that concluded on September 8, 2014. We expect to publish new eligibility requirements by the end of 2014, which will become effective 180 days after the publication date. Approved insurers that do not fully comply with the new financial requirements would be given a transition period of up to two years from the publication date.

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. In the nine months ended September 30, 2014, we and FHFA reached settlements with a number of institutions pursuant to which we recognized \$6.1 billion in our consolidated statement of comprehensive income. Lawsuits against a number of other 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.

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Reducing Our Mortgage-Related Investments Portfolio Over Time

In July 2014, pursuant to the 2014 Conservatorship Scorecard, we submitted a plan to FHFA to meet (even under adverse market conditions) the portfolio reduction requirements of the Purchase Agreement. The plan is also designed to implement the other strategies discussed under "Investment Segment Strategies" below. In October 2014, FHFA requested that we revise the submitted plan to provide that we would manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement. Under the revised plan requested by FHFA, we would be able to seek permission in writing with a documented basis for exception from FHFA to increase the plan's limit on the UPB of the mortgage-related investments portfolio to 95% of the Purchase Agreement annual cap. Under the plan (and as set forth in the 2014 Conservatorship Scorecard), we are focused on reducing the less liquid assets in our mortgage-related investments portfolio. The plan has not been approved by FHFA. The Scorecard provides that any sales of less liquid assets should be economically sensible transactions that consider impacts to the market and neighborhood stability.

From December 31, 2013 to September 30, 2014, the size of our mortgage-related investments portfolio declined by 10% or \$47.4 billion, to \$413.6 billion. Our less liquid assets accounted for \$40.8 billion of this decline. Our less liquid assets are reduced through: (a) liquidations (e.g. prepayments); (b) sales (including sales related to settlements of non-agency mortgage-related securities); and (c) securitizations. For additional information on our less liquid assets, see "Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

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. In the nine months ended September 30, 2014 and 2013, we purchased or issued other guarantee commitments for \$184.3 billion and \$359.6 billion in UPB of single-family conforming mortgage loans, respectively, representing approximately 884,000 and 1,753,000 homes, respectively. Origination volumes in the U.S. residential mortgage market declined significantly during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, driven by a significant decline in the volume of refinance mortgages. We attribute this decline to higher average mortgage interest rates in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed approximately 90% of the single-family conforming mortgages originated in the nine months ended September 30, 2014.

During the nine months ended September 30, 2014, our multifamily new business activity totaled \$14.1 billion, and provided financing for 934 properties amounting to approximately 214,000 apartment units. Approximately 90% of the units were affordable to families earning at or below the median income in their area.

Under the 2014 Conservatorship Scorecard, FHFA set several goals for us relating to increasing access to single-family mortgage credit for creditworthy borrowers. These goals include continuing to improve, and provide additional clarity regarding, our representation and warranty framework. FHFA is also working with Freddie Mac and Fannie Mae to develop responsible guidelines for mortgages with loan-to-value ratios between 95% and 97% to serve a targeted segment of creditworthy borrowers.

Building a Commercially Strong and Efficient Business Enterprise

Single-Family Guarantee Segment Strategies

Our single-family business is our largest 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 our 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 Explorer), 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.

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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 our 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, have purchased fewer loans with higher risk characteristics, and have 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, delinquency rates, credit losses, and the proportion of loans underwritten with full documentation. However, in recent quarters, as refinancing volumes have declined, the composition of our loan purchase activity has been shifting to a higher proportion of home purchase loans, which generally have higher original LTV ratios than loans sold to us during 2010 through 2012. During these same quarters, the average borrower credit scores in our loan purchase activity have declined.

Transferring the credit risk of the single-family credit guarantee portfolio: We consider credit risk transfer transactions to be a prudent way to manage risk in our business. In addition to three credit risk transfer transactions completed in 2013, we completed seven credit risk transfers in the first nine months of 2014, consisting of: (a) five STACR debt note transactions that transferred \$3.9 billion in risk to third parties; and (b) two ACIS transactions that transferred \$554 million in risk to third parties. While these credit risk transfer transactions have been relatively small compared to our overall mortgage credit risk exposure, we believe they have attracted broad interest in the market. We will continue to seek to expand and refine our offerings of credit risk transfer transactions in the future. The 2014 Conservatorship Scorecard includes a goal for us to complete credit risk transfer transactions for \$90 billion in UPB using at least one transaction type in addition to STACR debt note transactions. We believe we have met this Scorecard goal.

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; (b) housing mission and goals; and (c) customers' liquidity needs. However, economic returns on our guarantee activities are limited by, and subject to, FHFA's oversight. 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 activities (e.g., resecuritizing 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 our mortgage-related investments, we evaluate the liquidity of our investments based on two categories: (a) single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and (b) assets that are less liquid than the agency securities noted above. We are focusing our efforts on reducing the balance of less liquid assets in the mortgage-related investments portfolio. Our more liquid assets collectively represented \$168.1 billion and \$174.7 billion at September 30, 2014 and December 31, 2013, respectively, or approximately 41% and 38% of UPB of the portfolio at September 30, 2014 and December 31, 2013, respectively.

Managing the single-family performing loans obtained through our cash purchase program: In conjunction with the single-family business, we purchase loans from lenders for cash and securitize the majority of these loans into Freddie Mac agency securities that may be sold to dealers or investors, or retained in our Investments segment mortgage investments portfolio as agency securities.

Managing single-family reperforming loans and performing modified loans: This includes securitizing loans, structuring the resulting securities and selling some or all of the tranches, 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 selling loans, and could include 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 operating portfolio of cash and non-mortgage investments for short-term liquidity management.

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Managing the interest-rate risk for the overall company through the use of derivatives and unsecured debt.

Multifamily Segment Strategies

Our Multifamily business is a key business operation focusing on financing multifamily rental housing. We provide financing for affordable housing for renters nationwide and are a consistent source of liquidity to the multifamily mortgage market. We maintain a strong credit and capital management discipline, which we believe generates appropriate risk-adjusted returns on our business for taxpayers. We accomplish this primarily by focusing on our business model of purchasing, aggregating, and securitizing mortgage loans in order to transfer the expected credit risk associated with the loans to third-party investors. The Multifamily business model aligns with the objective that private investors absorb the first and predominant losses before any taxpayer exposure. We plan to continue to provide and support a consistent supply of affordable rental housing while reducing our exposure to credit risk through securitization.

The 2014 Conservatorship Scorecard includes a goal for us to maintain the dollar volume of new multifamily business activity for 2014 at or below the 2013 cap of \$25.9 billion, excluding certain targeted loan types, such as those that support affordable housing. Additionally, the 2014 Conservatorship Scorecard set a goal for us to assess the economics and feasibility of adopting additional types of risk transfer structures and of increasing the amount of risk transferred in current risk transfer structures (i.e., K Certificate transactions). For this purpose, risk is broadly defined to include, but is not limited to, credit, counterparty or aggregation risk. During the nine months ended September 30, 2014, we settled K Certificate transactions of \$12.9 billion in UPB.

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

- Common Securitization Platform: We continue to work with FHFA and Fannie Mae on the development of a new common securitization platform. In October 2013, Common Securitization Solutions, LLC (or CSS, which is equally owned by us and Fannie Mae) was formed to build and operate the platform. As part of the 2014 Conservatorship Scorecard, FHFA set certain goals relating to the continued development of the common securitization platform. We and FHFA expect this will be a multi-year effort. In addition, the 2014 Strategic Plan provides for us and Fannie Mae to work towards the development of a single (common) security as part of this effort. In August 2014, FHFA requested public input on the single security project as further discussed in "LEGISLATIVE AND REGULATORY MATTERS — FHFA Request for Input on Proposed Single Security Structure." In November 2014, we and Fannie Mae announced that a chief executive officer has been named for CSS. Additionally, we and Fannie Mae each appointed two executives to the CSS Board of Managers and signed governance and operating agreements for CSS.

Uniform Mortgage Data Program: We and Fannie Mae continue to collaborate with the industry to develop and implement uniform data standards for single-family mortgages. The 2014 Conservatorship Scorecard set a goal for us to provide active support for the following mortgage data standardization initiatives: (a) the Servicing Data and Technology Initiative; (b) the Uniform Closing Disclosure Dataset; and (c) the Uniform Loan Application Dataset. We have also made improvements to our Uniform Collateral Data Portal, which provides us standardized appraisal data for loans we purchase and provides our sellers with real-time feedback that is intended to help them evaluate the quality of property appraisals.

Lender placed insurance standards: As part of the servicing alignment initiative, we and Fannie Mae announced changes in servicing standards for situations in which 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. The 2014 Conservatorship Scorecard includes a goal for us to continue to develop approaches to reduce borrower costs for lender placed insurance.

In addition, in the first nine months of 2014, we worked to help our seller/servicers improve their underwriting processes for loans that they sell to us, including the following:

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We continued our initiative for enhanced early-risk assessment by seller/servicers through the use of Loan Prospector and Loan Quality Advisor, our automated tools for use in evaluating the credit and product eligibility of loans and identifying non-compliance issues;

We implemented requirements for our seller/servicers in response to certain final rules from the Consumer Financial Protection Bureau, including rules concerning the requirements for borrowers' ability to repay and high-cost mortgages. See "BUSINESS — Legislative and Regulatory Developments — Dodd-Frank Act" in our 2013 Annual Report for further information on the final rules;

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We adhered to recently 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

We continued to execute our loan review sampling strategy, specifically focusing on newly purchased mortgage loans, to evaluate compliance with our standards.

Investing in Human Capital, 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 stabilized over the last two years. However, the possibility remains that we may experience increased turnover again in the future as the Administration and Congress continue to debate our future business model.

Our information technology risk continues to decline. 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. We are reviewing our information technology architecture design with a focus on simplifying our information technology environment. We are also improving our out-of-region disaster recovery capabilities.

Streamlining, Simplifying and Strengthening Operations

We continue to strengthen our operations. We are conducting a multi-year project focused on simplifying our control structure and eliminating redundant control activities. In 2013, we modified our risk and control assessment framework to increase our emphasis on risk management. We are also conducting detailed operational control design reviews to identify ways to simplify our controls structure. We are improving our risk management capabilities by further enhancing our three-lines-of-defense risk management framework. Our enhanced three-lines-of-defense risk management framework is designed to balance ownership of the risk by our business segments with corporate oversight and independent assessment. See "RISK MANAGEMENT — Operational Risks" for more information.

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 3.5% on an annualized basis during the third quarter of 2014, compared to increases of 4.6% in the second quarter of 2014 and 4.5% in the third quarter of 2013, according to the Bureau of Economic Analysis. The national unemployment rate was 5.9% in September 2014, compared to 6.1% in June 2014 and 6.7% in March 2014, based on data from the U.S. Bureau of Labor Statistics. An average of approximately 227,000 monthly net new jobs (non-farm) were added to the economy during the nine months ended September 30, 2014, which shows evidence of continued improvements in the economy and the labor market. The average interest rate on new 30-year fixed-rate conforming mortgages trended slightly lower over the past three quarters, averaging 4.36% during the first quarter 2014, 4.23% in the second quarter 2014, and 4.14% during the third quarter of 2014, based on our weekly Primary Mortgage Market Survey. This is lower than the third quarter of 2013, when the average rate on new 30-year fixed-rate conforming mortgages was 4.44%. Lower mortgage interest rates during the third quarter of 2014 contributed to an increase in the volume of single-family mortgage refinance activity in the market compared to the second quarter of 2014.

Single-Family Housing Market

Although home prices increased on a national basis in the third quarter of 2014 and from September 2013 to September 2014 (based on our index), some localities continued to be affected by weakness in their housing market and experienced declines in home values during these periods. Home price appreciation has continued to moderate, with our nationwide index registering approximately a 5.1% increase from September 2013 to September 2014, compared with a 6.0% increase from June 2013 to June 2014. Despite increases in recent years, our national home price index reflects a cumulative decline of 10.7% since June 2006. These estimates were based on our own non-seasonally-adjusted price index of one-family homes funded by mortgage loans owned or guaranteed by us or Fannie Mae. Other indices of home prices may have different results, as they are determined using home prices relating to different pools of mortgage loans and calculated under different conventions than our own.

Based on data from the National Association of Realtors, sales of existing homes in the third quarter of 2014 were 5.12 million (on a seasonally-adjusted annual basis), increasing 5% from 4.87 million in the second quarter of 2014. Based on data from the U.S. Census Bureau and HUD, sales of new homes in the third quarter of 2014 were

approximately 446,000 (on a seasonally-adjusted annual basis), increasing 4% from approximately 427,000 in the second quarter of 2014.

Multifamily Housing Market

The multifamily market continued to experience solid fundamentals during the nine months ended September 30, 2014. Recent data reported by Reis, Inc. indicated that the national apartment vacancy rate was 4.2% in both the third quarter of 2014 and 2013 and remains low compared to the cyclical peak of 8% reached at the end of 2009. In addition, Reis, Inc. reported that effective rents (i.e., the average rent paid by the tenant over the term of the lease adjusted for concessions by the landlord and costs borne by the tenant) grew by 1.1% during the third quarter of 2014. Vacancy rates and effective rents are important to

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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 are now more than 10% above the peak level reached before the housing crisis, and reflect continued strong demand from investors for apartment properties.

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 in recent years, home prices at September 30, 2014 remained significantly below their peak levels in many geographic areas. Declines in the market's inventory of vacant housing have supported stabilization and increases in home prices in a number of metropolitan areas. We believe that home prices will not increase at the same rate experienced in 2013, and that home price growth rates will continue to moderate gradually during the near term and will return towards growth rates that are consistent with long-term historical averages (approximately 2 to 5 percent per year). To the extent that a large volume of loans concentrated in a particular geographic area completes the foreclosure process in a short period, the resulting increase in the market's inventory of homes for sale could cause home prices in that area to grow more slowly or decline.

Single-Family

We continue to expect that key macroeconomic drivers of the economy, such as income growth, employment, and inflation, will affect the performance of the housing and mortgage markets during the near term. We expect that economic growth will continue and mortgage interest rates will remain relatively low compared to historical levels, although they are expected to begin trending slowly upward. As a result, we believe that housing affordability for potential home buyers will remain relatively high in most metropolitan housing markets in the near term. We expect that the volume of home sales in 2014 will likely be slightly lower than in 2013. Important factors that we believe will continue to affect single-family housing demand negatively are the relatively high unemployment rate in certain areas and relatively modest family income growth.

We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2014 compared to the end of 2013, as the decline in purchase volume is expected to be offset by a similar decline in prepayments. We expect mortgage origination volumes in 2014, including refinancings, to be at the lowest level since 2000. Our loan purchase activity in the nine months ended September 30, 2014 declined to \$184.3 billion in UPB compared to \$359.6 billion in UPB during the nine months ended September 30, 2013. We expect this trend to continue in the fourth quarter of 2014 as refinancing volumes continue to remain low. During the nine months ended September 30, 2014, refinancings, including HARP, comprised approximately 46% of our single-family purchase and issuance volume compared with 76% in the nine months ended September 30, 2013. We expect HARP activity to continue to remain low during the fourth quarter of 2014 since the pool of borrowers eligible to participate in the program has declined.

Our guarantee fee rate charged on new acquisitions is significantly higher than that charged on our Legacy single-family books as a result of two across-the-board increases in guarantee fees implemented in 2012. In June 2014, FHFA released a request for input on the guarantee fees that we and Fannie Mae charge lenders, which was due in September 2014. We cannot predict what changes, if any, FHFA will require us to make to our guarantee fees as a result of the input received from this request.

Our charge-offs declined significantly during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. We expect our charge-offs and credit losses to continue to be lower than the level we experienced in 2013, but to remain elevated in the near term in part due to the substantial number of delinquent and underwater mortgage loans in our single-family credit guarantee portfolio that will likely be resolved. For the near

term, we also expect:

REO disposition and short sale severity ratios to remain high; and

- The number of seriously delinquent loans and the volume of our loan workouts to continue to decline.

Multifamily

We expect that, at the national level, new supply of multifamily housing will be absorbed by market demand in the near term driven by a strengthening economy and favorable demographics. 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 multifamily market fundamentals improved in recent years, other market participants, particularly banking institutions, increased their activities in the multifamily market. We expect that our new multifamily business activity, excluding affordable housing loans, loans for smaller multifamily properties, and loans for manufactured housing rental communities, will increase in the fourth quarter of

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2014 compared to the third quarter of 2014, but activity for 2014 will be below the cap specified by the 2014 Conservatorship Scorecard of \$25.9 billion in UPB.

As a result of the solid market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in the near term. We expect the performance of the multifamily market to continue to be solid in the near term and believe the long-term outlook for the multifamily market continues to be favorable.

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 cap reaches \$250 billion. In July 2014, we submitted a plan to FHFA to meet the portfolio reduction requirements of the Purchase Agreement. The plan is also designed to implement the other strategies discussed under "Our Primary Business Objectives — Building a Commercially Strong and Efficient Business Enterprise — Investment Segment Strategies." In October 2014, FHFA requested that we revise the submitted plan to provide that we would manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement. Under the revised plan requested by FHFA, we would be able to seek permission in writing with a documented basis for exception from FHFA to increase the plan's limit on the UPB of the mortgage-related investments portfolio to 95% of the Purchase Agreement annual cap. The plan has not been approved by FHFA. 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.

Table 2 — Mortgage-Related Investments Portfolio

	September 30, 2014			December 31, 2013			
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total	
	(in millions)						
Investments segment — Mortgage investments portfolio:							
Single-family unsecuritized mortgage loans	\$—	\$82,607	\$82,607	\$—	\$84,411	\$84,411	
Freddie Mac mortgage-related securities	151,782	7,700	159,482	156,438	8,809	165,247	
Non-agency mortgage-related securities	—	48,278	48,278	—	64,524	64,524	
Non-Freddie Mac agency mortgage-related securities	15,676	—	15,676	16,889	—	16,889	
Total Investments segment — Mortgage investments portfolio	167,458	138,585	306,043	173,327	157,744	331,071	
Single-family Guarantee segment —							
Single-family unsecuritized mortgage loans ⁽²⁾	—	30,161	30,161	—	37,726	37,726	
Multifamily segment — Mortgage investments portfolio ⁽³⁾	795	76,611	77,406	1,411	90,816	92,227	
Total mortgage-related investments portfolio	\$168,253	\$245,357	\$413,610	\$174,738	\$286,286	\$461,024	
Percentage of total mortgage-related investments portfolio	41	% 59	% 100	% 38	% 62	% 100	%

Mortgage-related investments portfolio cap ⁽⁴⁾	\$469,625	\$552,500
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(1) Based on UPB.

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

(3) See "Table 10 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios" for the composition of this line item.

(4) Represents the portfolio cap under the Purchase Agreement and FHFA regulation at December 31, 2014 and 2013, respectively.

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

(a) single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and (b) assets that are less liquid than the agency securities noted above.

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

The UPB of our mortgage-related investments portfolio was \$413.6 billion at September 30, 2014, a decline of \$47.4 billion (or 10%) compared to \$461.0 billion at December 31, 2013. Our less liquid assets accounted for \$40.9 billion of this decline, primarily due to liquidations (i.e., principal repayments) and our efforts to reduce these assets. We sold \$13.9 billion of less liquid assets (including sales related to settlements of non-agency mortgage-related securities litigation). In addition, we securitized \$7.0 billion of single-family reperforming and modified loans. These amounts do not include sales of mortgage loans purchased for cash and subsequently securitized. During the third quarter of 2014, and included in the sales of less liquid assets amount above, we completed a pilot transaction in which we sold approximately \$0.6 billion in UPB of seriously delinquent unsecuritized single-family loans (for which we received FHFA approval in April 2014). We may pursue additional sales in the future, subject to FHFA approval. We plan to continue reducing the balance of our less liquid assets, although we

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also continue to add certain of these assets to our mortgage-related investments portfolio as part of our business strategies (e.g., removal of seriously delinquent loans from PC pools and acquisitions of mortgage loans purchased for cash).

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Freddie Mac

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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 3 — Selected Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(dollars in millions, except share-related amounts)				
Statements of Comprehensive Income Data				
Net interest income	\$3,663	\$4,276	\$10,676	\$12,685
(Provision) benefit for credit losses	(574)	1,138	(41)	2,264
Non-interest income (loss)	764	1,689	2,469	2,769
Non-interest expense	(816)	(577)	(2,267)	(1,699)
Income tax (expense) benefit	(956)	23,960	(3,374)	24,036
Net income	2,081	30,486	7,463	40,055
Comprehensive income	2,786	30,437	9,175	41,765
Net income (loss) attributable to common stockholders ⁽²⁾	(705)	50	(1,712)	(1,709)
Net income (loss) per common share – basic and diluted	(0.22)	0.02	(0.53)	(0.53)
Cash dividends per common share	—	—	—	—
Weighted average common shares outstanding (in millions) – basic and diluted ⁽³⁾	3,236	3,238	3,236	3,238
			September 30, 2014	December 31, 2013
(dollars in millions)				
Balance Sheets Data				
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)			\$1,549,533	\$1,529,905
Total assets			1,922,784	1,966,061
Debt securities of consolidated trusts held by third parties			1,467,845	1,433,984
Other debt			435,706	506,767
All other liabilities			14,047	12,475
Total stockholders' equity			5,186	12,835
Portfolio Balances⁽⁴⁾				
Mortgage-related investments portfolio ⁽⁵⁾			\$413,610	\$461,024
Total Freddie Mac mortgage-related securities ⁽⁶⁾			1,620,355	1,592,511
Total mortgage portfolio ⁽⁷⁾			1,898,343	1,914,661
TDRs on accrual status			82,749	78,708
Non-accrual loans			34,556	43,457
			September 30, 2014	September 30, 2013
Ratios⁽⁸⁾				
Return on average assets ⁽⁹⁾	0.4	% 6.2	% 0.5	% 2.7
				%

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Allowance for loans losses as percentage of mortgage loans, held-for-investment ⁽¹⁰⁾	1.3	1.5	1.3	1.5
Equity to assets ratio ⁽¹¹⁾	0.2	1.0	0.5	1.1

See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in our 2013 Annual Report and in this (1) Form 10-Q for information regarding our accounting policies and the impact of new accounting policies on our consolidated financial statements.

For a discussion of how the senior preferred stock dividend is determined and how it affects net income (loss) (2) attributable to common stockholders, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share” in our 2013 Annual Report.

Includes the weighted average number of shares that are associated with the warrant for our common stock issued (3) 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) Based on UPB.

(5) See “Table 2 — Mortgage-Related Investments Portfolio” for the composition of this line item.

(6) See “Table 23 — Freddie Mac Mortgage-Related Securities” for the composition of this line item.

(7) See “Table 10 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios” for the composition of this line item.

The dividend payout ratio on common stock is not presented because the amount of cash dividends per common (8) 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 stockholders’ equity, net of preferred stock (at redemption value) is less than zero for all periods presented.

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

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

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

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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” in our 2013 Annual Report for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations.

Table 4 — Summary Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Variance	2014	2013	Variance
	(in millions)					
Net interest income	\$3,663	\$4,276	\$(613)	\$10,676	\$12,685	\$(2,009)
(Provision) benefit for credit losses	(574)	1,138	(1,712)	(41)	2,264	(2,305)
Net interest income after (provision) benefit for credit losses	3,089	5,414	(2,325)	10,635	14,949	(4,314)
Non-interest income (loss):						
Gains (losses) on extinguishment of debt securities of consolidated trusts	(132)	135	(267)	(308)	197	(505)
Gains (losses) on retirement of other debt	(8)	143	(151)	—	136	(136)
Derivative gains (losses)	(617)	(74)	(543)	(4,894)	1,663	(6,557)
Net impairment of available-for-sale securities recognized in earnings	(166)	(126)	(40)	(687)	(213)	(474)
Other gains (losses) on investment securities recognized in earnings	(109)	620	(729)	1,029	(153)	1,182
Other income (loss)	1,796	991	805	7,329	1,139	6,190
Total non-interest income (loss)	764	1,689	(925)	2,469	2,769	(300)
Non-interest expense:						
Administrative expenses	(472)	(455)	(17)	(1,393)	(1,331)	(62)
REO operations (expense) income	(103)	79	(182)	(112)	183	(295)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(198)	(150)	(48)	(563)	(366)	(197)
Other expenses	(43)	(51)	8	(199)	(185)	(14)
Total non-interest expense	(816)	(577)	(239)	(2,267)	(1,699)	(568)
Income before income tax (expense) benefit	3,037	6,526	(3,489)	10,837	16,019	(5,182)
Income tax (expense) benefit	(956)	23,960	(24,916)	(3,374)	24,036	(27,410)
Net income	2,081	30,486	(28,405)	7,463	40,055	(32,592)
Other comprehensive income (loss), net of taxes and reclassification adjustments	705	(49)	754	1,712	1,710	2
Comprehensive income	\$2,786	\$30,437	\$(27,651)	\$9,175	\$41,765	\$(32,590)
Net Interest Income						

The table below presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

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

	Three Months Ended September 30,					
	2014			2013		
	Average Balance ⁽¹⁾	Interest Income (Expense)	Average Rate	Average Balance ⁽¹⁾	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	\$9,842	\$1	0.04 %	\$32,549	\$1	0.02 %
Federal funds sold and securities purchased under agreements to resell	43,205	7	0.06	38,249	6	0.05
Mortgage-related securities:						
Mortgage-related securities ⁽²⁾	252,205	2,465	3.91	317,824	3,184	4.01
Extinguishment of PCs held by Freddie Mac	(110,511)	(1,043)	(3.78)	(137,329)	(1,323)	(3.85)
Total mortgage-related securities, net	141,694	1,422	4.01	180,495	1,861	4.12
Non-mortgage-related securities ⁽²⁾	11,668	1	0.02	23,715	10	0.18
Mortgage loans held by consolidated trusts ⁽³⁾	1,539,913	14,148	3.68	1,516,255	14,197	3.75
Unsecuritized mortgage loans ⁽³⁾	167,683	1,643	3.92	199,385	1,872	3.76
Total interest-earning assets	\$1,914,005	\$17,222	3.60	\$1,990,648	\$17,947	3.61
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$1,558,023	\$(12,845)	(3.30)	\$1,536,566	\$(12,846)	(3.34)
Extinguishment of PCs held by Freddie Mac	(110,511)	1,043	3.78	(137,329)	1,323	3.85
Total debt securities of consolidated trusts held by third parties	1,447,512	(11,802)	(3.26)	1,399,237	(11,523)	(3.29)
Other debt:						
Short-term debt	116,624	(35)	(0.12)	139,675	(45)	(0.13)
Long-term debt ⁽⁴⁾	326,610	(1,647)	(2.01)	386,354	(1,996)	(2.07)
Total other debt	443,234	(1,682)	(1.52)	526,029	(2,041)	(1.55)
Total interest-bearing liabilities	1,890,746	(13,484)	(2.84)	1,925,266	(13,564)	(2.82)
Expense related to derivatives ⁽⁵⁾	—	(75)	(0.02)	—	(107)	(0.02)
Impact of net non-interest-bearing funding	23,259	—	0.03	65,382	—	0.09
Total funding of interest-earning assets	\$1,914,005	\$(13,559)	(2.83)	\$1,990,648	\$(13,671)	(2.75)
Net interest income/yield		\$3,663	0.77		\$4,276	0.86
Nine Months Ended September 30,						
	2014			2013		
	Average Balance ⁽¹⁾	Interest Income (Expense)	Average Rate	Average Balance ⁽¹⁾	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	\$14,188	\$2	0.02 %	\$32,484	\$11	0.05 %
Federal funds sold and securities purchased under agreements to resell	41,645	17	0.06	37,723	26	0.09
Mortgage-related securities:						
Mortgage-related securities ⁽²⁾	260,172	7,629	3.91	320,768	9,844	4.09
Extinguishment of PCs held by Freddie Mac	(112,553)	(3,177)	(3.76)	(127,730)	(3,829)	(4.00)
Total mortgage-related securities, net	147,619	4,452	4.02	193,038	6,015	4.15

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Non-mortgage-related securities ⁽²⁾	9,952	5	0.06	21,671	32	0.20
Mortgage loans held by consolidated trusts ⁽³⁾	1,535,099	42,881	3.72	1,506,345	42,798	3.79
Unsecuritized mortgage loans ⁽³⁾	172,311	4,965	3.84	209,653	5,898	3.75
Total interest-earning assets	\$1,920,814	\$52,322	3.63	\$2,000,914	\$54,780	3.65
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$1,551,918	\$(39,327)	(3.38)	\$1,528,800	\$(39,091)	(3.41)
Extinguishment of PCs held by Freddie Mac	(112,553)	3,177	3.76	(127,730)	3,829	4.00
Total debt securities of consolidated trusts held by third parties	1,439,365	(36,150)	(3.35)	1,401,070	(35,262)	(3.36)
Other debt:						
Short-term debt	117,795	(110)	(0.12)	129,762	(134)	(0.14)
Long-term debt ⁽⁴⁾	335,934	(5,156)	(2.05)	399,337	(6,339)	(2.12)
Total other debt	453,729	(5,266)	(1.55)	529,099	(6,473)	(1.63)
Total interest-bearing liabilities	1,893,094	(41,416)	(2.91)	1,930,169	(41,735)	(2.88)
Expense related to derivatives ⁽⁵⁾	—	(230)	(0.02)	—	(360)	(0.02)
Impact of net non-interest-bearing funding	27,720	—	0.04	70,745	—	0.10
Total funding of interest-earning assets	\$1,920,814	\$(41,646)	(2.89)	\$2,000,914	\$(42,095)	(2.80)
Net interest income/yield		\$10,676	0.74		\$12,685	0.85

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

(2) 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.

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

(4) Includes current portion of long-term debt.

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 interest expense associated with the hedged forecasted issuance of debt affects earnings.

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Net interest income decreased by \$613 million and \$2.0 billion for the three and nine months ended September 30, 2014, respectively, compared to the three and nine months ended September 30, 2013. The decreases in net interest income were primarily due to the negative impact of the reduction in the balance of mortgage-related assets in our mortgage-related investments portfolio due to continued liquidations. Beginning in April 2012, net interest income includes the legislated 10 basis point increase in guarantee fees, which is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011.

The percentage of our net interest income from guarantee fees has increased in recent periods. We estimate that approximately one-third of our net interest income for the nine months ended September 30, 2014 was derived from guarantee fees. As our mortgage-related investments portfolio continues to decline, we expect that guarantee fees will account for an increasing portion of our net interest income.

During the three months ended September 30, 2014, we had sufficient access to the debt markets. For more information, see “LIQUIDITY AND CAPITAL RESOURCES — Liquidity.”

(Provision) Benefit 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 a benefit for credit losses and 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. Assuming that all other factors remain the same, home price growth may reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default.

Our (provision) benefit for credit losses was \$(0.6) billion in the third quarter of 2014 compared to \$1.1 billion in the third quarter of 2013, and was \$(41) million in the nine months ended September 30, 2014 compared to \$2.3 billion in the nine months ended September 30, 2013. The provision for credit losses in the three months ended September 30, 2014 reflects an increase in our loan loss reserve for newly impaired loans combined with a slight increase in our estimate of incurred losses on previously impaired loans attributed to declines in home prices in certain areas. The provision for credit losses in the nine months ended September 30, 2014 reflects an increase in our loan loss reserve for newly impaired loans that was partially offset by slight improvements in our estimate of incurred losses on previously impaired loans primarily due to the positive effect of an increase in home prices. The benefit for credit losses in the 2013 periods reflects: (a) declines in the volume of newly delinquent single-family loans; (b) lower estimates of incurred loss due to the positive effect of an increase in national home prices; and (c) \$0.9 billion related to counterparty settlement agreements in the third quarter of 2013.

We do not expect future settlement agreements, if any, with seller/servicers to have a significant effect on our financial results.

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; and (g) third-party mortgage insurance coverage and recoveries.

During the nine months ended September 30, 2014, our charge-offs, net of recoveries for single-family loans, were significantly lower than those recorded in the nine months ended September 30, 2013 primarily due to lower volumes of foreclosures and foreclosure alternatives. Our single-family recoveries in the nine months ended September 30, 2014 and 2013 included approximately \$0.5 billion and \$1.6 billion, respectively, related to repurchase requests made to our seller/servicers (including \$0.3 billion and \$1.1 billion, respectively, with respect to settlement agreements related to repurchase requests made to certain sellers). During the three months ended September 30, 2014, our charge-offs, net of recoveries for single-family loans, were higher than those recorded in the three months ended September 30, 2013 primarily due to lower recoveries as the third quarter of 2013 included settlement agreements with certain sellers. We continue to experience a high volume of foreclosures and foreclosure alternatives as compared

to periods prior to 2008. As a result, we expect our single-family credit losses will continue to remain elevated in the near term even if the volume of new seriously delinquent loans continues to decline.

The total number of single-family seriously delinquent loans declined approximately 19% and 22% during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, the UPB of our single-family loans classified as TDRs was \$100.1 billion and \$97.6 billion, respectively. However, these amounts include \$82.2 billion and \$78.0 billion, respectively, of single-family TDRs that were no longer seriously delinquent as of these dates. Loans that have been classified as TDRs remain categorized as such 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, seriously delinquent loans, charge-offs, REO assets, our loan loss reserves balance, TDRs, and non-accrual loans.

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Non-Interest Income (Loss)

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

During the three months ended September 30, 2014 and 2013, we extinguished debt securities of consolidated trusts with a UPB of \$14.8 billion and \$15.5 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount). Gains (losses) on extinguishment of these debt securities of consolidated trusts were \$(132) million and \$135 million during the three months ended September 30, 2014 and 2013, respectively.

During the nine months ended September 30, 2014 and 2013, we extinguished debt securities of consolidated trusts with a UPB of \$37.6 billion and \$39.0 billion, respectively. Gains (losses) on extinguishment of these debt securities of consolidated trusts were \$(308) million and \$197 million during the nine months ended September 30, 2014 and 2013, respectively.

We recognized losses in the 2014 periods because interest rates declined between the time of issuance and repurchase of these debt securities. We recognized gains in the 2013 periods because interest rates increased between the time of issuance and repurchase of these debt securities.

See “Table 18 — 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

Gains (losses) on retirement of other debt were \$(8) million and \$143 million during the three months ended September 30, 2014 and 2013, respectively. Gains on retirement of other debt were \$0 million and \$136 million during the nine months ended September 30, 2014 and 2013, respectively.

We recognized gains on the retirement of other debt during the three and nine months ended September 30, 2013 as a result of exercising our call option for other debt held at premiums.

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 September 30, 2014 and December 31, 2013, 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, yield curves, and implied volatility affect net income, fair value changes in several of the types of assets and liabilities being economically hedged do not affect net income. Therefore, there can be timing mismatches affecting current period earnings, which may not be reflective of the economics of our business.

Table 6 — Derivative Gains (Losses)

	Derivative Gains (Losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Interest-rate swaps	\$ (184)	) \$ 1,112	\$ (3,505)	) \$ 6,408
Option-based derivatives ⁽¹⁾	78	(238)	) 344	(1,897)
Other derivatives ⁽²⁾	116	(40)	) 241	(101)
Accrual of periodic settlements	(627)	) (908)	) (1,974)	) (2,747)
Total	\$ (617)	) \$ (74)	) \$ (4,894)	) \$ 1,663

- (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. Our last foreign-currency swaps matured in January 2014.

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

During the three months ended September 30, 2014, we recognized net losses on derivatives of \$0.6 billion primarily as a result of 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.

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During the nine months ended September 30, 2014, we recognized net losses on derivatives of \$4.9 billion primarily as a result of a flattening of the yield curve as shorter-term interest rates increased and longer-term interest rates declined. Also contributing to our net losses on derivatives was 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.

During the three months ended September 30, 2013, we recognized a loss on derivatives of \$74 million as net fair value gains of \$1.1 billion on our interest-rate swap portfolio were more than offset by: (a) a net loss of \$908 million 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 \$238 million on our option-based derivatives. The net fair value gains on our interest-rate swap portfolio were primarily driven by time decay, as we continued to pay periodic settlements to counterparties as our interest-rate swaps moved closer to maturity.

During the nine months ended September 30, 2013, we recognized gains on derivatives of \$1.7 billion primarily as a result of an increase in longer-term interest rates. We recognized fair value gains on our pay-fixed swaps of \$14.8 billion which were largely offset by: (a) fair value losses on our receive-fixed swaps of \$8.3 billion; (b) a net loss of \$2.7 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 (c) fair value losses of \$1.9 billion on our option-based derivatives resulting from losses on our purchased call swaptions.

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 \$166 million and \$687 million during the three and nine months ended September 30, 2014, respectively, compared to \$126 million and \$213 million during the three and nine months ended September 30, 2013, respectively. During the three and nine months ended September 30, 2014, these impairments were primarily driven by an increase in the population of available-for-sale securities in an unrealized loss position that we intend to sell. 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" and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers" 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. 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 September 30, 2014.

We recognized gains (losses) on trading securities of \$(216) million and \$(183) million during the three and nine months ended September 30, 2014, respectively, compared to \$(207) million and \$(1.3) billion during the three and nine months ended September 30, 2013, respectively. The losses on trading securities during the three months ended September 30, 2014 and 2013 were primarily due to the movement of securities with unrealized gains towards maturity. The losses on trading securities during the nine months ended September 30, 2014 and 2013 were primarily due to the movement of securities with unrealized gains towards maturity, partially offset during the nine months ended September 30, 2014 by the effect of the decline in longer-term interest rates.

We recognized gains on sales of available-for-sale securities of \$107 million and \$1.2 billion during the three and nine months ended September 30, 2014, respectively, compared to gains on sales of available-for-sale securities of \$827 million and \$1.2 billion during the three and nine months ended September 30, 2013, respectively. The gains during the three and nine months ended September 30, 2014 primarily resulted from sales related to our structuring activity.

Other Income (Loss)

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

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Table 7 — Other Income (Loss)

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
	(in millions)			
Other income (loss):				
Non-agency mortgage-related securities settlements	\$1,187	\$549	\$6,084	\$660
Gains (losses) on mortgage loans	168	114	383	(440)
Recoveries on loans impaired upon purchase ⁽¹⁾	53	64	162	213
Guarantee-related income, net ⁽²⁾	40	120	184	279
All other	348	144	516	427
Total other income (loss)	\$1,796	\$991	\$7,329	\$1,139

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

(2) Principally 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 \$1.2 billion and \$0.5 billion in the three months ended September 30, 2014 and 2013, respectively, and \$6.1 billion and \$0.7 billion in the nine months ended September 30, 2014 and 2013, respectively. We had ten settlements in the nine months ended September 30, 2014, while we had four settlements in the nine months ended September 30, 2013. For information on the settlements in the nine months ended September 30, 2014, 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 \$168 million and \$114 million in the three months ended September 30, 2014 and 2013, respectively, and \$383 million and \$(440) million in the nine months ended September 30, 2014 and 2013, respectively. The improvements in the 2014 periods were mainly due to gains on multifamily mortgage loans, primarily due to favorable changes in interest rates. The majority of these multifamily loans were designated for securitization and elected to be carried at fair value.

During the nine months ended September 30, 2014 and 2013, we sold \$12.9 billion and \$20.8 billion, respectively, in UPB of multifamily loans primarily through K Certificate transactions. We also sold seriously delinquent single-family loans (with an aggregate UPB of \$0.6 billion) in a pilot transaction completed in the third quarter of 2014. These loans had been reclassified from held-for-investment to held-for-sale during the second quarter of 2014 in connection with this pilot transaction. This sale did not have a material effect on our financial results.

All Other

All other income (loss) includes income recognized from transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, changes in fair value of STACR debt notes, and other miscellaneous income. All other income (loss) was \$348 million and \$516 million in the three and nine months ended September 30, 2014, respectively, compared to \$144 million and \$427 million in the three and nine months ended September 30, 2013, respectively. The increase in the 2014 periods was primarily due to increased income from the accrual of compensatory fees related to servicers that failed to meet our loan foreclosure timelines. On October 20, 2014, FHFA announced that FHFA, Freddie Mac and Fannie Mae reached an agreement in principle on modifying compensatory fees and foreclosure timelines, the details of which will be announced in the near future. These changes may result in lower compensatory fees in the future. In addition, we have elected to carry STACR debt notes at fair value, and recorded gains in fair value during the three months ended September 30, 2014 due to a decline in market prices for these notes (which reduced the fair value of our liability) compared to losses in the three months ended September 30, 2013.

Non-Interest Expense

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

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Freddie Mac

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Table 8 — Non-Interest Expense

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013		2013	
	(in millions)			
Administrative expenses:				
Salaries and employee benefits	\$231	\$207	\$687	\$626
Professional services	128	144	392	387
Occupancy expense	16	14	43	41
Other administrative expense	97	90	271	277
Total administrative expenses	472	455	1,393	1,331
REO operations expense (income)	103	(79)	112	(183)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	198	150	563	366
Other expenses ⁽¹⁾	43	51	199	185
Total non-interest expense	\$816	\$577	\$2,267	\$1,699

(1) Includes HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses.

Administrative Expenses

Our administrative expenses increased during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due to increases in salaries and employee benefits expense mainly due to expenses associated with our retirement plans.

REO Operations (Income) Expense

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

Table 9 — REO Operations (Income) Expense

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013		2013	
	(in millions)			
REO operations (income) expense:				
Single-family:				
REO property expenses ⁽¹⁾	\$183	\$238	\$660	\$721
Disposition (gains) losses, net ⁽²⁾	(127)	(200)	(408)	(595)
Change in holding period allowance, dispositions	(6)	(3)	(37)	(27)
Change in holding period allowance, inventory ⁽³⁾	111	(5)	110	12
Recoveries ⁽⁴⁾	(52)	(97)	(205)	(279)
Total single-family REO operations (income) expense	109	(67)	120	(168)
Multifamily REO operations (income) expense	(6)	(12)	(8)	(15)
Total REO operations (income) expense	\$103	\$(79)	\$112	\$(183)

(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 \$103 million in the third quarter of 2014, compared to \$(79) million in the third quarter of 2013 and was \$112 million in the nine months ended September 30, 2014 compared to \$(183) million in the nine months ended September 30, 2013. The change from REO operations income in the 2013 periods to REO operations expense in the 2014 periods was primarily due to: (a) an increase in holding period allowance for properties in REO inventory; and (b) lower gains on the disposition of REO properties. For more information on our REO activity, see “Segment Earnings — Segment Earnings — Results — Single-Family Guarantee,” “CONSOLIDATED BALANCE SHEETS ANALYSIS — REO, Net,” and “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — REO Assets.”

Temporary Payroll Tax Cut Continuation Act of 2011 Expense

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, we increased the guarantee fee on single-family residential mortgages sold to us by 10 basis points in April 2012. 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.

Expenses related to the legislated 10 basis point increase in guarantee fees were \$198 million and \$150 million during the three months ended September 30, 2014 and 2013, respectively, and \$563 million and \$366 million during the nine months

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ended September 30, 2014 and 2013, respectively. As of September 30, 2014, loans with an aggregate UPB of \$820.3 billion were subject to these fees, and the cumulative total of the amounts paid and due to Treasury for these fees was \$1.2 billion. We expect these fees to continue to increase in the future as we add new business and increase the UPB of loans subject to these fees.

Income Tax (Expense) Benefit

We reported an income tax (expense) benefit of \$(1.0) billion and \$24.0 billion for the three months ended September 30, 2014 and 2013, respectively, and \$(3.4) billion and \$24.0 billion for the nine months ended September 30, 2014 and 2013, respectively. The change to income tax expense in the 2014 periods from income tax benefit in the 2013 periods results from the release of the valuation allowance in the third quarter of 2013. For 2014, we expect that our effective tax rate will be marginally below the corporate statutory rate, which is currently 35%. See “NOTE 12: INCOME TAXES” for additional information.

Comprehensive Income

Our comprehensive income was \$2.8 billion and \$9.2 billion for the three and nine months ended September 30, 2014, respectively, consisting of: (a) \$2.1 billion and \$7.5 billion of net income, respectively; and (b) \$0.7 billion and \$1.7 billion of other comprehensive income, respectively. The other comprehensive income in these periods primarily related to fair value gains on our available-for-sale securities resulting from the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity. Our comprehensive income was \$30.4 billion and \$41.8 billion for the three and nine months ended September 30, 2013, respectively, consisting of: (a) \$30.5 billion and \$40.1 billion of net income, respectively; and (b) \$(49) million and \$1.7 billion of other comprehensive income (loss), respectively. Other comprehensive income (loss) for the three months ended September 30, 2013 was primarily due to the reversal of unrealized fair value gains in AOCI associated with certain available-for-sale securities sold, partially offset by fair value gains on our single-family non-agency mortgage-related available-for-sale securities. Other comprehensive income for the nine months ended September 30, 2013 was primarily due to fair value gains on our single-family non-agency mortgage-related available-for-sale securities.

Other comprehensive income (loss) in all periods also reflects the reversals of: (a) unrealized losses due to the recognition of other-than-temporary impairments in earnings; and (b) unrealized gains and losses related to available-for-sale securities sold during the respective period. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Total Equity” 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 financial performance of our Single-family Guarantee segment is measured based on its contribution to GAAP net income (loss). Our Investments segment and Multifamily segment are measured based on each segment's contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes.

The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. 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. The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. For more information, see "NOTE 13: SEGMENT REPORTING" in this Form 10-Q and our 2013 Annual Report.

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.

Our Segment Earnings for the three and nine months ended September 30, 2013 includes a benefit for federal income taxes of \$23.9 billion within our All Other category that resulted from the release of our valuation allowance against our net deferred tax assets.

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In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. With this change, the Multifamily segment reflects the entire change in fair value of these assets in its financial results, and the Investments segment transfers the change in fair value of the derivatives associated with the Multifamily segment's investments securities and held-for-sale loans to the Multifamily segment. The purpose of this change is to better reflect the operations of the Multifamily segment on a stand-alone basis. Prior period results have been revised to conform with the current period presentation.

See “BUSINESS — Our Business Segments” in our 2013 Annual Report for further information regarding our segments, including the descriptions and activities of our segments, and “NOTE 13: SEGMENT REPORTING” in this Form 10-Q and our 2013 Annual Report 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 September 30, 2014 and December 31, 2013. For a discussion of each segment's portfolios, see “Segment Earnings — Results.”

Table 10 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios

	September 30, 2014 (in millions)	December 31, 2013
Segment mortgage portfolios:		
Single-family Guarantee — Managed loan portfolio ⁽²⁾ :		
Single-family unsecuritized seriously delinquent mortgage loans	\$30,161	\$37,726
Single-family Freddie Mac mortgage-related securities held by us	159,482	165,247
Single-family Freddie Mac mortgage-related securities held by third parties	1,385,660	1,361,972
Single-family other guarantee commitments ⁽³⁾	16,871	19,872
Total Single-family Guarantee — Managed loan portfolio	1,592,174	1,584,817
Investments — Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans ⁽⁴⁾	82,607	84,411
Freddie Mac mortgage-related securities	159,482	165,247
Non-agency mortgage-related securities	48,278	64,524
Non-Freddie Mac agency mortgage-related securities	15,676	16,889
Total Investments — Mortgage investments portfolio	306,043	331,071
Multifamily — Guarantee portfolio:		
Multifamily Freddie Mac mortgage-related securities held by us	2,216	2,787
Multifamily Freddie Mac mortgage-related securities held by third parties	72,997	62,505
Multifamily other guarantee commitments ⁽³⁾	9,205	9,288
Total Multifamily — Guarantee portfolio	84,418	74,580
Multifamily — Mortgage investments portfolio:		
Multifamily investment securities portfolio	25,752	33,056
Multifamily unsecuritized loan portfolio	51,654	59,171
Total Multifamily — Mortgage investments portfolio	77,406	92,227
Total Multifamily portfolio	161,824	166,807
Less: Freddie Mac single-family and certain multifamily securities ⁽⁵⁾	(161,698)	(168,034)
Total mortgage portfolio	\$1,898,343	\$1,914,661
Credit risk portfolios: ⁽⁶⁾		
Single-family credit guarantee portfolio: ⁽²⁾		
Single-family mortgage loans, on-balance sheet	\$1,639,790	\$1,630,859
Non-consolidated Freddie Mac mortgage-related securities	6,429	6,961
Other guarantee commitments ⁽³⁾	16,871	19,872

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Less: HFA initiative-related guarantees ⁽⁷⁾	(3,466) (4,051)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates ⁽⁷⁾	(457) (541)
Total single-family credit guarantee portfolio	\$ 1,659,167	\$ 1,653,100	
Multifamily mortgage portfolio:			
Multifamily mortgage loans, on-balance sheet ⁽⁸⁾	\$52,179	\$59,615	
Non-consolidated Freddie Mac mortgage-related securities	74,688	64,848	
Other guarantee commitments ⁽³⁾	9,205	9,288	
Less: HFA initiative-related guarantees ⁽⁷⁾	(827	) (905)
Total multifamily mortgage portfolio	\$ 135,245	\$ 132,846	

(1) Amounts represent UPB.

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

Excludes unsecuritized seriously delinquent single-family loans. The Single-family Guarantee segment earns (4) management and guarantee fees associated with unsecuritized single-family loans in the Investments segment's mortgage investments portfolio.

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 (5) 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.

(6) Represents the UPB of loans for which we present characteristics, delinquency data, and certain other statistics in this report. See "GLOSSARY" for further description.

We exclude HFA initiative-related guarantees and our resecuritizations of Ginnie Mae certificates from our credit (7) 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.

(8) 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 11 — Segment Earnings and Key Metrics — Single-Family Guarantee

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense) ⁽²⁾	\$19	\$203	\$(27)	\$300
(Provision) benefit for credit losses	(818)	885	(742)	1,474
Non-interest income:				
Management and guarantee income	1,341	1,230	3,764	3,771
Other non-interest income	422	246	450	695
Total non-interest income	1,763	1,476	4,214	4,466
Non-interest expense:				
Administrative expenses	(302)	(263)	(855)	(756)
REO operations (expense) income	(109)	67	(120)	168
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(198)	(150)	(563)	(366)
Other non-interest expense	(40)	(45)	(159)	(139)
Total non-interest expense	(649)	(391)	(1,697)	(1,093)
Segment adjustments ⁽³⁾	(75)	(154)	(233)	(596)
Segment Earnings before income tax expense	240	2,019	1,515	4,551
Income tax expense	(44)	—	(438)	(5)
Segment Earnings, net of taxes	196	2,019	1,077	4,546
Total other comprehensive income, net of taxes	(1)	2	(1)	14
Total comprehensive income	\$195	\$2,021	\$1,076	\$4,560
Key metrics:				

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Balances and Volume (in billions, except rate):

Average balance of single-family credit guarantee portfolio and HFA guarantees	\$1,653		\$1,648		\$1,652		\$1,642	
Issuance — Single-family credit guarantees	\$78		\$101		\$189		\$370	
Fixed-rate products — Percentage of purchases	94	%	95	%	94	%	96	%
Liquidation rate — Single-family credit guarantees (annualized)	17	%	26	%	15	%	31	%
Average Management and Guarantee Rate (in bps, annualized) ⁽⁷⁾								
Segment Earnings management and guarantee income ⁽⁸⁾	32.4		29.8		30.4		30.6	
Guarantee fee charged on new acquisitions ⁽⁹⁾	57.2		53.2		57.4		50.8	
Credit:								
Serious delinquency rate, at end of period	1.96	%	2.58	%	1.96	%	2.58	%
REO inventory, at end of period (number of properties)	29,344		47,119		29,344		47,119	
Single-family credit losses, in bps (annualized) ⁽¹⁰⁾	24.6		13.5		22.7		35.2	
Market:								
Single-family mortgage debt outstanding (total U.S. market, in billions) ⁽¹¹⁾	\$9,855		\$9,922		\$9,855		\$9,922	
30-year fixed mortgage rate ⁽¹²⁾	4.2	%	4.3	%	4.2	%	4.3	%

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- 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) Includes interest expense associated with our STACR debt notes that we began issuing in July 2013.
- (3) For a description of our segment adjustments, see “NOTE 13: SEGMENT REPORTING — Segment Earnings” in our 2013 Annual Report.
- Represents the UPB of loans underlying Freddie Mac mortgage-related securities and other guarantee commitments. Includes conversions of previously issued other guarantee commitments into Freddie Mac mortgage-related securities.
- (4) Excludes Other Guarantee Transactions.
- 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. Also includes terminations of other guarantee commitments.
- (6) Includes the effect of pricing adjustments that are based on the price performance of our PCs relative to comparable Fannie Mae securities.
- 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 average rate of management and guarantee fees for new acquisitions during the period assuming amortization of delivery fees using the estimated life of the related 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 September 18, 2014. The outstanding amount for September 30, 2014 reflects the balance as of June 30, 2014.
- 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%.
- (12) Segment Earnings for our Single-family Guarantee segment declined to \$0.2 billion and \$1.1 billion in the three and nine months ended September 30, 2014, respectively, from \$2.0 billion and \$4.5 billion in the three and nine months ended September 30, 2013, respectively. The declines in the 2014 periods were primarily due to: (a) a provision for credit losses in the 2014 periods, compared to a benefit for credit losses in the 2013 periods; (b) lower net interest income in the 2014 periods; and (c) REO operations expense in the 2014 periods compared to REO operations income in the 2013 periods.
- Segment Earnings for the Single-family Guarantee segment is largely driven by management and guarantee fee income and the (provision) benefit for credit losses. The table below provides summary information about the composition of Segment Earnings for this segment, by guarantee and loan origination years, for the nine months ended September 30, 2014 and 2013.

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Table 12 — Segment Earnings Composition — Single-Family Guarantee Segment

	Nine Months Ended September 30, 2014				
	Segment Earnings Management and Guarantee Income ⁽¹⁾		Credit-Related (Expense) Benefit ⁽²⁾⁽³⁾		Net Amount ⁽⁵⁾
	Amount	Average Rate ⁽⁴⁾	Amount	Average Rate ⁽⁴⁾	
	(dollars in millions, rates in bps)				
Year of origination: ⁽⁶⁾					
New single-family book	\$2,302	33.0	\$51	0.7	\$2,353
HARP and other relief refinance loans	892	34.9	(309)	(11.7)	583
2005-2008 Legacy single-family book	396	20.4	(838)	(45.8)	(442)
Pre-2005 Legacy single-family book	174	18.9	234	22.3	408
Total	\$3,764	30.4	\$(862)	(6.9)	\$2,902
Administrative expenses					(855)
Net interest income					(27)
Other non-interest income (expenses), net					(943)
Segment Earnings, net of taxes					\$1,077
	Nine Months Ended September 30, 2013				
	Segment Earnings Management and Guarantee Income ⁽¹⁾		Credit-Related (Expense) Benefit ⁽²⁾⁽³⁾		Net Amount ⁽⁵⁾
	Amount	Average Rate ⁽⁴⁾	Amount	Average Rate ⁽⁴⁾	
	(dollars in millions, rates in bps)				
Year of origination: ⁽⁶⁾					
New single-family book	\$2,089	34.2	\$7	0.1	\$2,096
HARP and other relief refinance loans	787	33.3	(353)	(14.1)	434
2005-2008 Legacy single-family book	618	23.7	1,602	68.6	2,220
Pre-2005 Legacy single-family book	277	22.3	386	28.7	663
Total	\$3,771	30.6	\$1,642	13.2	\$5,413
Administrative expenses					(756)
Net interest income					300
Other non-interest income (expenses), net					(411)
Segment Earnings, net of taxes					\$4,546

For the entire single-family credit guarantee portfolio, consists of: (a) the contractual management and guarantee fee; and (b) amortization of delivery and other upfront fees (using the original contractual maturity date of the (1) related loans) of \$1.4 billion and \$1.8 billion for the nine months ended September 30, 2014 and 2013, respectively. 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 (provision) benefit for credit losses and Segment Earnings REO operations (expense) income. Historical rates of average credit-related (expense) benefit 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) Includes our settlement agreements with certain sellers for release of certain repurchase obligations primarily associated with loans in our Legacy single-family books in exchange for one-time cash payments.

Calculated as the annualized amount of Segment Earnings management and guarantee income or credit-related (expense) benefit, respectively, divided by the sum of the average carrying values of the single-family credit

(4) 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.

(5) Calculated as Segment Earnings management and guarantee income less credit-related (expense) benefit. 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 (expense) benefit 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 (i.e., in the New single-family book, as such refinancings occurred from 2009 to 2014). 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 \$78 billion and \$189 billion in the three and nine months ended September 30, 2014, respectively, compared to \$101 billion and \$370 billion in the three and nine months ended September 30, 2013, respectively. During the nine months ended September 30, 2014, refinancings comprised approximately 46% of our single-family purchase and issuance volume, compared with 76% in the nine months ended September 30, 2013.

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Origination volumes in the U.S. residential mortgage market declined significantly during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, driven by a significant decline in the volume of refinance mortgages. We attribute this decline to higher average mortgage interest rates in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future. The UPB of the single-family credit guarantee portfolio was \$1.7 trillion at both September 30, 2014 and December 31, 2013. We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2014 compared to the end of 2013. Our purchase activity in the nine months ended September 30, 2014 declined to \$184.3 billion in UPB compared to \$359.6 billion in UPB during the nine months ended September 30, 2013. The annualized liquidation rate on our single-family credit guarantees also declined to approximately 15% in the nine months ended September 30, 2014 compared to 31% in the nine months ended September 30, 2013. We expect the reduced purchase volume to continue in the fourth quarter of 2014. However, the expected decline in purchase volume is expected to be offset by a decline in prepayments.

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 HARP and other relief refinance mortgages in our New single-family book, since underwriting procedures for these 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 credit guarantee portfolio and comprised 58% of this portfolio as of September 30, 2014. The New single-family book has low delinquency rates and credit losses compared to our 2005-2008 Legacy single-family book. The serious delinquency rate for the New single-family book was 0.23% as of September 30, 2014 and its credit losses were \$69 million in the nine months ended September 30, 2014, representing 2% of our total credit losses. As of September 30, 2014, 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 these loans to continue to provide management and guarantee income that exceeds credit-related and administrative expenses over the long term, in aggregate. For more information on the composition of our single-family credit guarantee portfolio, see "Table 26 — Single-Family Credit Guarantee Portfolio Data by Year of Origination."

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. 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 \$1.3 billion and \$3.8 billion in the three and nine months ended September 30, 2014, respectively, compared to \$1.2 billion and \$3.8 billion in the three and nine months ended September 30, 2013, respectively. The slight increase in the three months ended September 30, 2014 compared to the same period in 2013 was primarily due to an increase in the portion of loans in the single-family credit guarantee portfolio that were acquired in recent years, which have higher contractual management and guarantee fees. For the nine months ended September 30, 2014, a decline in the amortization of delivery and other upfront fees was largely offset by an increase in contractual management and guarantee fees.

The average management and guarantee fee we charged for new acquisitions in the nine months ended September 30, 2014 was 57.4 basis points, compared to 50.8 basis points in the nine months ended September 30, 2013. The higher average contractual guarantee fees charged on new acquisitions in the first nine months of 2014 was primarily due to a change in the characteristics of the mortgages we purchased in the period, including loans with higher LTV ratios and borrowers with lower average credit scores, than in the first nine months of 2013. The guarantee fee we charge on new acquisitions generally consists of a combination of delivery fees and a base monthly fee. The average guarantee fee

charged on new acquisitions is higher than the average Segment Earnings management and guarantee income rate because it represents our expected guarantee fee rate based on the estimated life of the related loans using certain assumptions for prepayments and other liquidations, whereas the Segment Earnings rate is based on the contractual life of the guarantee. 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, in aggregate, exceeds our anticipated credit-related and administrative expenses on the single-family credit guarantee portfolio; and (b) provide a return on the capital that would be needed to support the related credit risk.

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 adversely 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

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adversely affected by a significant decrease in demand for K Certificates” in our 2013 Annual Report for additional information.

The 2014 Conservatorship Scorecard includes a goal for us to complete credit risk transfer transactions for \$90 billion in UPB using at least one transaction type in addition to STACR debt note transactions. We executed seven transactions during the first nine months of 2014 that shift a portion of the mezzanine credit loss position on certain groups of loans in our New single-family book from us to private investors. The transactions consisted of: (a) five STACR debt note transactions; and (b) two ACIS transactions using third-party insurance. After completing these transactions, we believe we have met this Scorecard goal. We will continue to seek to expand and refine our offerings of credit risk transfer transactions in the future. For more information, see "BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements" in our 2013 Annual Report and "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk — Credit Enhancements."

Segment Earnings (provision) benefit for credit losses for the Single-family Guarantee segment was \$(0.8) billion and \$(0.7) billion in the three and nine months ended September 30, 2014, respectively, compared to \$0.9 billion and \$1.5 billion in the three and nine months ended September 30, 2013, respectively. The provision for credit losses in the three months ended September 30, 2014 reflects an increase in our loan loss reserve for newly impaired loans combined with a slight increase in our estimate of incurred losses on previously impaired loans attributed to declines in home prices in certain areas. The provision for credit losses in the nine months ended September 30, 2014 reflects an increase in our loan loss reserve for newly impaired loans that was partially offset by slight improvements in our estimate of incurred losses on previously impaired loans primarily due to the positive effect of an increase in home prices. The benefit for credit losses in the 2013 periods reflects: (a) declines in the volume of newly delinquent single-family loans; (b) lower estimates of incurred loss due to the positive effect of an increase in national home prices; and (c) \$0.9 billion related to counterparty settlement agreements in the third quarter of 2013. Assuming that all other factors remain the same, an increase in home prices may reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default.

Segment Earnings other non-interest income was \$422 million and \$450 million in the three and nine months ended September 30, 2014, respectively, compared to \$246 million and \$695 million in the three and nine months ended September 30, 2013, respectively. Other non-interest income includes securitization fees, compensatory fees related to servicers that failed to meet foreclosure timelines and gains or losses related to certain assets that are carried at fair value. The 2014 periods benefited from increased fee income from the accrual of compensatory fees related to servicers that failed to meet our loan foreclosure timelines. The decrease for the nine months ended September 30, 2014 compared to the same period in 2013 was due, in part, to fair value losses on mortgage loans recognized upon our reclassification of the loans from held-for-investment to held-for-sale in the second quarter of 2014.

The serious delinquency rate on our single-family credit guarantee portfolio was 1.96% and 2.39% at September 30, 2014 and December 31, 2013, respectively. In the nine months ended September 30, 2014 our serious delinquency rate continued the decline that began in 2010, primarily due to lower volumes of single-family loans becoming seriously delinquent and continued loss mitigation and foreclosure activities for loans in the Legacy single-family books. In April 2014, we received FHFA's approval for a pilot transaction to sell certain seriously delinquent unsecuritized single-family loans. We completed the sale of these loans (with an aggregate UPB of \$0.6 billion) in the third quarter of 2014. This sale did not have a material effect on our financial results. We may pursue additional sales in the future, subject to FHFA approval, which would further reduce our serious delinquency rate.

Charge-offs, net of recoveries, associated with single-family loans were \$2.7 billion and \$4.6 billion in the nine months ended September 30, 2014 and 2013, respectively. Our recoveries in the nine months ended September 30, 2014 and 2013 included approximately \$0.5 billion and \$1.6 billion, respectively, related to repurchase requests made to 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 22.7 basis points and 35.2 basis points for the nine months ended September 30, 2014 and 2013, 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, REO assets and non-accrual

loans.

REO operations income (expense) for the Single-family Guarantee segment was \$(109) million and \$67 million in the third quarter of 2014 and 2013, respectively, and \$(120) million and \$168 million in the nine months ended September 30, 2014 and 2013, respectively. The change from REO operations income in the 2013 periods to REO operations expense in the 2014 periods was primarily due to: (a) an increase in holding period allowance for properties in REO inventory; and (b) lower gains on the disposition of REO properties.

Our single-family REO inventory (measured in number of properties) declined 38% from December 31, 2013 to September 30, 2014, primarily due to property dispositions exceeding acquisitions. Our REO acquisition activity has declined in recent periods as a result of: (a) our loss mitigation efforts; (b) a larger proportion of property sales to third parties at foreclosure; and (c) a declining number of new seriously delinquent loans. Although there was an improvement in REO

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disposition severity during the first nine months of 2014, 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 — REO Assets” for additional information about our REO activity.

Expenses related to the legislated 10 basis point increase in guarantee fees were \$563 million and \$366 million during the nine months ended September 30, 2014 and 2013, respectively, and we recognized a similar amount of associated management and guarantee income in each period. As of September 30, 2014, loans with an aggregate UPB of \$820.3 billion were subject to these fees, and the cumulative total of the amounts paid and due to Treasury was \$1.2 billion. Segment Earnings income tax expense for the Single-family Guarantee segment was \$438 million and \$5 million for the nine months ended September 30, 2014 and 2013, respectively. The increased income tax expense in 2014 results from the release of the valuation allowance in the second half of 2013.

Investments

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

Table 13 — Segment Earnings and Key Metrics — Investments

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(dollars in millions)				
Segment Earnings:					
Net interest income	\$762	\$883	\$2,324	\$2,752	
Non-interest income (loss):					
Net impairment of available-for-sale securities recognized in earnings	37	16	(95)	73	
Derivative gains (losses)	(133)	1,624	(2,745)	3,235	
Gains (losses) on trading securities	(202)	(184)	(243)	(1,213)	
Other non-interest income	1,594	1,503	8,004	3,214	
Total non-interest income (loss)	1,296	2,959	4,921	5,309	
Non-interest expense:					
Administrative expenses	(104)	(133)	(339)	(377)	
Other non-interest expense	—	—	(6)	(1)	
Total non-interest expense	(104)	(133)	(345)	(378)	
Segment adjustments ⁽²⁾	168	269	468	854	
Segment Earnings before income tax (expense) benefit	2,122	3,978	7,368	8,537	
Income tax (expense) benefit	(682)	(76)	(2,308)	514	
Segment Earnings, net of taxes	1,440	3,902	5,060	9,051	
Total other comprehensive income, net of taxes	819	433	1,893	2,965	
Comprehensive income	\$2,259	\$4,335	\$6,953	\$12,016	
Key metrics:					
Portfolio balances:					
Average balances of interest-earning assets: ⁽³⁾					
Mortgage-related securities ⁽⁴⁾	\$232,767	\$283,478	\$238,629	\$282,009	
Non-mortgage-related investments ⁽⁵⁾	61,450	94,150	63,162	91,756	
Single-family unsecuritized loans ⁽⁶⁾	83,481	88,444	83,446	89,963	
Total average balances of interest-earning assets	\$377,698	\$466,072	\$385,237	\$463,728	
Return:					
Net interest yield — Segment Earnings basis (annualized)	0.81	% 0.76	% 0.80	% 0.79	%

(1)

In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. Prior period results have been revised to conform with the current period presentation. For additional information about this change and the 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 — Segment Earnings" and "— Table 13.2 — Segment Earnings and Reconciliation to GAAP Results," respectively.

- (2) For a description of our segment adjustments, see "NOTE 13: SEGMENT REPORTING — Segment Earnings" in our 2013 Annual Report.
- (3) We calculate average balances based on amortized cost.
- (4) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which are consolidated under GAAP on our consolidated balance sheets.
- (5) 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.
- (6) Excludes unsecuritized seriously delinquent single-family mortgage loans.

Comprehensive income for our Investments segment decreased to \$2.3 billion and \$7.0 billion in the three and nine months ended September 30, 2014, respectively, from \$4.3 billion and \$12.0 billion in the three and nine months ended September 30, 2013, respectively. The drivers of comprehensive income primarily consist of: (a) net interest income generated

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on our investments; (b) settlement income associated with our investments in non-agency mortgage-related securities; (c) derivative- and investments-related fair value gains and losses; (d) amortization income related to the sale of our PCs; and (e) income taxes.

Segment Earnings for our Investments segment decreased to \$1.4 billion and \$5.1 billion in the three and nine months ended September 30, 2014, respectively, from \$3.9 billion and \$9.1 billion in the three and nine months ended September 30, 2013, respectively. The decrease in Segment Earnings during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 was primarily due to derivative losses recorded during 2014 compared to derivative gains recorded during 2013 and tax expense in 2014 which resulted from the release of the valuation allowance related to deferred tax assets in the second half of 2013, partially offset by increases in other non-interest income from settlements associated with our investments in certain non-agency mortgage-related securities.

During the three and nine months ended September 30, 2014, the UPB of the Investments segment mortgage investments portfolio decreased at an annualized rate of 2% and 10%, respectively. We held \$175.2 billion and \$182.1 billion of agency securities, \$48.3 billion and \$64.5 billion of non-agency mortgage-related securities, and \$82.6 billion and \$84.4 billion of single-family unsecuritized mortgage loans at September 30, 2014 and December 31, 2013, respectively. The decline in UPB of agency securities is due mainly to liquidations. The decline in UPB of non-agency mortgage-related securities is due mainly to liquidations (e.g. prepayments) and sales. The decline in the UPB of single-family unsecuritized mortgage loans is primarily related to borrower remittances and prepayments of mortgage loans, the securitization of mortgage loans that we had purchased for cash (including the securitization of reperforming loans and modified loans), and sales of seriously delinquent loans. 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 was \$762 million and \$2.3 billion during the three and nine months ended September 30, 2014, respectively, compared to \$883 million and \$2.8 billion in the three and nine months ended September 30, 2013. The declines in net interest income resulted from continued reduction in the balance of mortgage-related assets.

Segment Earnings non-interest income (loss) was \$1.3 billion and \$4.9 billion in the three and nine months ended September 30, 2014, respectively, compared to \$3.0 billion and \$5.3 billion in the three and nine months ended September 30, 2013, respectively. The decline during the three and nine months ended September 30, 2014 was primarily due to derivative losses recorded during the 2014 periods compared to derivative gains recorded during the same periods of 2013. These declines in non-interest income during the 2014 periods were partially offset by income from settlements associated with our investments in certain non-agency mortgage-related securities.

We recorded derivative gains (losses) for this segment of \$(133) million and \$(2.7) billion during the three and nine months ended September 30, 2014, respectively, compared to \$1.6 billion and \$3.2 billion during the three and nine months ended September 30, 2013, respectively. The losses were primarily due to a flattening of the yield curve during the three months ended September 30, 2014 and a decrease in longer-term interest rates during the nine months ended September 30, 2014 compared to an increase in longer-term interest rates during the three and nine months ended September 30, 2013. See “Non-Interest Income (Loss) — Derivative Gains (Losses)” for additional information on our derivatives.

We recorded other non-interest income for this segment of \$1.6 billion and \$8.0 billion during the three and nine months ended September 30, 2014, respectively, compared to \$1.5 billion and \$3.2 billion during the three and nine months ended September 30, 2013, respectively. The increases in other non-interest income during the three and nine months ended September 30, 2014 primarily resulted from settlements associated with our investments in certain non-agency mortgage-related securities. For information on the settlement agreements, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

Our Investments segment’s other comprehensive income was \$819 million and \$1.9 billion during the three and nine months ended September 30, 2014, respectively, compared to \$433 million and \$3.0 billion during the three and nine months ended September 30, 2013, respectively. The increase in other comprehensive income during the three months ended September 30, 2014 was primarily due to spread tightening on our available-for-sale agency and non-agency

mortgage-related securities. The decrease in other comprehensive income during the nine months ended September 30, 2014 was primarily due to lower fair value gains on our non-agency mortgage-related securities as spreads tightened less during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Other comprehensive income in all periods also reflects the reversals of: (a) unrealized losses due to the recognition of other-than-temporary impairments in earnings; and (b) unrealized gains and losses related to available-for-sale securities sold during the respective period.

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” in our 2013 Annual Report.

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Multifamily

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

Table 14 — Segment Earnings and Key Metrics — Multifamily

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
	(dollars in millions)				
Segment Earnings:					
Net interest income	\$240	\$321	\$705	\$944	
Benefit for credit losses	10	28	52	167	
Non-interest income:					
Management and guarantee income	65	52	186	147	
Gains (losses) on mortgage loans	116	114	526	(440))
Derivative gains (losses)	310	(615)	507	1,550)
Other non-interest income (loss)	(3)	682	203	791)
Total non-interest income	488	233	1,422	2,048	
Non-interest expense:					
Administrative expenses	(66)	(59)	(199)	(198))
REO operations income	6	12	8	15)
Other non-interest expense	(3)	(6)	(16)	(18))
Total non-interest expense	(63)	(53)	(207)	(201))
Segment Earnings before income tax expense	675	529	1,972	2,958	
Income tax (expense) benefit	(230)	110	(633)	(398))
Segment Earnings, net of taxes	445	639	1,339	2,560	
Total other comprehensive loss, net of taxes	(113)	(484)	(180)	(1,269))
Total comprehensive income	\$332	\$155	\$1,159	\$1,291	
Key metrics:					
New Business Activity:					
Multifamily new business activity	\$6,947	\$5,266	\$14,062	\$18,800	
Multifamily units financed from new business activity	100,555	72,716	213,909	257,714	
Securitization Activity: ⁽²⁾					
Multifamily securitization transactions — guaranteed portion	\$3,869	\$5,313	\$11,047	\$17,474	
Multifamily securitization transactions — unguaranteed portion ⁽³⁾	\$623	\$1,041	\$1,846	\$3,233	
Average subordination, at issuance	13.9	% 16.4	% 14.3	% 15.6	%
K Certificate guarantees:					
Average guarantee fee rate, in bps (annualized) ⁽⁴⁾	21.5	19.3	20.8	19.4	
Average K Certificate guaranteed UPB	\$67,885	\$52,458	\$64,938	\$46,180	
Credit:					
Multifamily mortgage portfolio delinquency rate (at period end):					
K Certificates	0.02	% 0.01	% 0.02	% 0.07	%
All other	0.04	% 0.08	% 0.04	% 0.11	%
Total	0.03	% 0.05	% 0.03	% 0.05	%
REO inventory, at period end (number of properties)	—	1	—	1	

(1) In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. Prior period results have

been revised to conform with the current period presentation. For additional information about this change and the 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 — Segment Earnings" and "Table 13.2 — Segment Earnings and Reconciliation to GAAP Results," respectively.

(2) Consists of K Certificate 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 associated with K Certificates, divided by the sum of the average UPB of the outstanding K Certificates.

Comprehensive income for our Multifamily segment was \$0.3 billion and \$1.2 billion for the three and nine months ended September 30, 2014, respectively, compared to \$0.2 billion and \$1.3 billion for the three and nine months ended September 30, 2013. Comprehensive income in the segment is comprised of Segment Earnings and other comprehensive income or loss. Total other comprehensive loss recognized in the 2014 periods for our Multifamily segment was primarily due to increasing interest rates.

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Segment Earnings for our Multifamily segment were \$0.4 billion and \$1.3 billion in the three and nine months ended September 30, 2014, respectively, compared to \$0.6 billion and \$2.6 billion in the three and nine months ended September 30, 2013, respectively. The decline in the first nine months of 2014 compared to the first nine months of 2013 was primarily due to: (a) lower gains on sale of available-for-sale securities; (b) lower gains on derivatives related to the available-for-sale securities we held; and (c) lower net interest income.

In the first nine months of 2014, we continued to provide liquidity to the multifamily market and support affordable rental housing by acquiring and securitizing multifamily mortgages. The 2014 Conservatorship Scorecard provides for us to maintain the dollar volume of new multifamily business activity for 2014 at or below the 2013 cap of \$25.9 billion, excluding affordable housing loans, loans for smaller multifamily properties, and loans for manufactured housing rental communities. Additionally, the 2014 Conservatorship Scorecard set a goal for us to assess the economics and feasibility of adopting additional types of risk transfer structures and of increasing the amount of risk transferred in current risk transfer structures (i.e., K Certificate transactions). For this purpose, risk is broadly defined to include, but is not limited to, credit, counterparty or aggregation risk. Our multifamily new business activity declined to \$14.1 billion in the first nine months of 2014 compared to \$18.8 billion in the first nine months of 2013 primarily as a result of increased competition from other market participants, particularly banking institutions. We expect that our new multifamily business activity, excluding affordable housing loans, loans for smaller multifamily properties, and loans for manufactured housing rental communities, will increase in the fourth quarter of 2014 compared to the third quarter of 2014, but activity for 2014 will be below the cap specified by the 2014 Conservatorship Scorecard of \$25.9 billion in UPB.

We sold \$4.5 billion and \$12.9 billion in UPB of multifamily loans in the three and nine months ended September 30, 2014, respectively, primarily through K Certificate transactions, compared to \$6.4 billion and \$20.8 billion in the three and nine months ended September 30, 2013, respectively. Our K Certificate activity declined in the first nine months of 2014 largely because our loan purchases have been adversely affected by increased competition, particularly from banking institutions. The average subordination level at issuance of our multifamily securitizations for the first nine months of 2014 and 2013 was 14.3% and 15.6%, respectively, which represents the unguaranteed portion sold to third parties to absorb first losses. As of September 30, 2014, approximately 51% of the UPB of our total multifamily mortgage portfolio consisted of K Certificates with subordination coverage where third parties hold the first losses. The UPB of the total multifamily portfolio declined to \$161.8 billion as of September 30, 2014 from \$166.8 billion as of December 31, 2013, primarily due to declines in our multifamily investment securities and unsecuritized loan portfolios.

Segment Earnings net interest income was \$240 million and \$321 million in the three months ended September 30, 2014 and 2013, respectively, and was \$0.7 billion and \$0.9 billion in the nine months ended September 30, 2014 and 2013, respectively. The declines in the 2014 periods were primarily due to lower average balances of the multifamily unsecuritized loan and investment securities portfolios compared to the 2013 periods.

Segment Earnings non-interest income was \$488 million and \$233 million in the three months ended September 30, 2014 and 2013, respectively, and was \$1.4 billion and \$2.0 billion in the nine months ended September 30, 2014 and 2013, respectively. The increase in the third quarter of 2014 compared to the third quarter of 2013 was primarily attributed to higher gains on derivatives used to economically hedge our CMBS in the third quarter of 2014. In addition, lower average balances of the multifamily mortgage investments portfolio during the third quarter of 2014 resulted in lower associated derivative volatility. The decline in non-interest income in the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to lower gains on sale of available-for-sale CMBS in the 2014 period.

Derivative gains (losses) for the Multifamily segment are offset by fair value changes of the corresponding assets that the derivatives economically hedge. The fair value changes of these hedged assets are included in gains (losses) on mortgage loans, other non-interest income and total other comprehensive income. As a result, there is no net impact on total comprehensive income for the Multifamily segment from interest rate-related derivatives.

Segment Earnings management and guarantee income was \$65 million and \$52 million in the three months ended September 30, 2014 and 2013, respectively, and was \$186 million and \$147 million in the nine months ended September 30, 2014 and 2013, respectively. The increase in the 2014 periods was primarily due to the higher average

balance of the multifamily guarantee portfolio, which was primarily due to ongoing issuances of K Certificates. Although the average management and guarantee fee rate associated with K Certificates increased in the 2014 periods compared to the same periods in 2013, the average total management and guarantee fee rate on our multifamily guarantee portfolio declined to 30.8 basis points in the first nine months of 2014, compared to 32.1 basis points in the first nine months of 2013. The decline in the total rate in the first nine months of 2014 primarily reflects the increasing balance of guaranteed K Certificates during recent years. Our guarantees of K Certificates have lower fees than our other multifamily guarantee activities as a result of our limited credit risk exposure due to the use of subordination. Segment Earnings benefit for credit losses was \$10 million and \$28 million in the three months ended September 30, 2014 and 2013, respectively, and \$52 million and \$167 million in the nine months ended September 30, 2014 and 2013, respectively. The recognition of a benefit for credit losses in these periods was primarily due to continued improvement in the expected performance of the underlying loans.

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As a result of our prudent underwriting standards and practices, and the continued solid multifamily market fundamentals, we believe that the credit quality of the multifamily mortgage portfolio remains strong. Multifamily credit losses (gains) as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were (0.7) basis points and 1.0 basis points in the first nine months of 2014 and 2013, respectively, and our delinquency rate of 0.03% as of September 30, 2014 continues to be among the industry's lowest. See "RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Multifamily Mortgage Credit Risk" for further information about the credit performance, including delinquency rates, 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" in our 2013 Annual Report 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 September 30, 2014. These short-term assets related to our consolidated VIEs increased by \$3.2 billion from December 31, 2013 to September 30, 2014.

Excluding amounts related to our consolidated VIEs, we held \$16.2 billion and \$11.3 billion of cash and cash equivalents (including non-interest bearing deposits of \$15.7 billion and \$7.2 billion at the Federal Reserve Bank of New York), no federal funds sold, and \$17.6 billion and \$59.2 billion of securities purchased under agreements to resell at September 30, 2014 and December 31, 2013, respectively. The decrease in these liquid assets at September 30, 2014 compared to December 31, 2013 was due in part to the raising of the U.S. statutory debt limit, thus abating concerns that the U.S. would exhaust its borrowing authority.

Excluding amounts related to our consolidated VIEs, we held on average \$8.2 billion and \$11.8 billion of cash and cash equivalents and \$27.8 billion and \$29.3 billion of federal funds sold and securities purchased under agreements to resell during the three and nine months ended September 30, 2014, respectively. In recent periods, our use of federal funds sold transactions has been minimal.

For information regarding our liquidity management practices and policies, see "MD&A — LIQUIDITY AND CAPITAL RESOURCES" in our 2013 Annual Report.

Investments in Securities

The table below provides the fair value of our investments in securities as of September 30, 2014 and December 31, 2013. The table does not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see "Table 10 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios."

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	September 30, 2014 (in millions)	December 31, 2013
Investments in securities:		
Available-for-sale securities		
Mortgage-related securities		
Agency securities	\$52,099	\$51,623
Non-agency securities	60,678	77,296
Total available-for-sale securities	112,777	128,919
Trading securities		
Mortgage-related securities		
Agency securities	21,155	16,627
Non-agency securities	120	141
Total mortgage-related securities	21,275	16,768
Non-mortgage-related securities	9,159	6,636
Total trading securities	30,434	23,404
Total investments in securities	\$143,211	\$152,323

(1) For information on the types of instruments that are included as investments in securities, see "NOTE 7: INVESTMENTS IN SECURITIES — Table 7.1 — Available-For-Sale Securities" and "— Table 7.8 — Trading Securities."

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 \$9.2 billion and \$6.6 billion as of September 30, 2014 and December 31, 2013, respectively. While our investments in non-mortgage-related securities increased at September 30, 2014 compared to December 31, 2013, our other liquid assets decreased. 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. When we purchase certain 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" in our 2013 Annual Report for further information.

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 information on our holdings of such securities, see "Table 10 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios."

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Table 16 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2014			December 31, 2013		
	Fixed Rate	Variable Rate ⁽¹⁾	Total	Fixed Rate	Variable Rate ⁽¹⁾	Total
(in millions)						
Freddie Mac mortgage-related securities:						
Single-family	\$42,249	\$6,820	\$49,069	\$38,472	\$4,401	\$42,873
Multifamily	766	1,450	2,216	1,318	1,469	2,787
Total Freddie Mac mortgage-related securities	43,015	8,270	51,285	39,790	5,870	45,660
Non-Freddie Mac mortgage-related securities:						
Agency securities: ⁽²⁾						
Fannie Mae:						
Single-family	6,902	8,579	15,481	7,240	9,421	16,661
Multifamily	—	—	—	3	—	3
Ginnie Mae:						
Single-family	126	69	195	150	78	228
Multifamily	15	—	15	15	—	15
Total Non-Freddie Mac agency securities	7,043	8,648	15,691	7,408	9,499	16,907
Non-agency mortgage-related securities:						
Single-family: ⁽³⁾						
Subprime	11	30,700	30,711	116	39,583	39,699
Option ARM	—	8,493	8,493	—	10,426	10,426
Alt-A and other	1,117	5,389	6,506	1,417	9,594	11,011
CMBS ⁽³⁾	10,700	12,204	22,904	13,069	16,254	29,323
Obligations of states and political subdivisions ⁽⁴⁾	2,450	13	2,463	3,524	14	3,538
Manufactured housing	535	187	722	577	201	778
Total non-agency mortgage-related securities	14,813	56,986	71,799	18,703	76,072	94,775
Total UPB of mortgage-related securities	\$64,871	\$73,904	138,775	\$65,901	\$91,441	157,342
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(9,515)			(14,036)
Net unrealized gains (losses) on mortgage-related securities, pre-tax			4,792			2,381
Total carrying value of mortgage-related securities			\$134,052			\$145,687

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

Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but (2) have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

For information about how these securities are rated, see “Table 21 — Ratings of Non-Agency Mortgage-Related (3) Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.”

Consists of housing revenue bonds. Approximately 33% and 28% of these securities held at September 30, 2014 (4) and December 31, 2013, 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.

Table 17 — Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

September 30, 2014 December 31, 2013

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	UPB (in millions)	Fair Value	UPB	Fair Value
Agency pass-through securities ⁽¹⁾	\$11,765	\$ 12,672	\$12,951	\$13,867
Other agency securities:				
Interest-only securities ⁽²⁾	—	2,011	—	1,966
Principal-only securities ⁽³⁾	2,525	2,104	2,724	2,252
Inverse floating-rate securities ⁽⁴⁾	1,298	1,886	1,594	2,280
Other Structured Securities ⁽⁵⁾	51,388	54,581	45,298	47,885
Total agency securities	66,976	73,254	62,567	68,250
Non-agency securities ⁽⁶⁾	71,799	60,798	94,775	77,437
Total mortgage-related securities	\$138,775	\$134,052	\$157,342	\$145,687

(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.

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(3) Represents securities where the holder receives only the principal cash flows.

Represents securities where the holder receives interest cash flows that change inversely with the reference rate

(4) (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.

Includes fair values of \$1 million and \$2 million of interest-only securities at September 30, 2014 and

(6) December 31, 2013, respectively.

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from \$157.3 billion at December 31, 2013 to \$138.8 billion at September 30, 2014, while the fair value of these investments decreased from \$145.7 billion at December 31, 2013 to \$134.1 billion at September 30, 2014. 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 amount of less liquid assets in our mortgage-related investments portfolio, as described in “EXECUTIVE SUMMARY — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

The table below summarizes our mortgage-related securities purchase activity for the three and nine months ended September 30, 2014 and 2013.

Table 18 — Mortgage-Related Securities Purchase Activity

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(in millions)			
Non-Freddie Mac mortgage-related securities purchased for resecuritization: ⁽²⁾				
Ginnie Mae Certificates	\$—	\$21	\$—	\$24
Non-Freddie Mac mortgage-related securities purchased as investments in securities:				
Agency securities:				
Fannie Mae:				
Fixed-rate	\$749	\$3,300	\$2,338	\$4,016
Variable-rate	399	—	467	50
Total Fannie Mae	1,148	3,300	2,805	4,066
Ginnie Mae:				
Variable-rate	—	—	73	—
Total agency securities	1,148	3,300	2,878	4,066
Non-agency mortgage-related securities:				
CMBS: ⁽³⁾				
Fixed-rate	8	20	8	30
Variable-rate	35	35	35	65
Total non-agency mortgage-related securities	43	55	43	95
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	1,191	3,355	2,921	4,161
Total non-Freddie Mac mortgage-related securities purchased	\$1,191	\$3,376	\$2,921	\$4,185
Freddie Mac mortgage-related securities purchased: ⁽⁴⁾				
Single-family:				
Fixed-rate	\$43,529	\$32,779	\$91,404	\$80,431
Variable-rate	4,322	95	9,339	859
Multifamily:				
Fixed-rate	84	—	84	—

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Total Freddie Mac mortgage-related securities purchased	\$47,935	\$32,874	\$100,827	\$81,290
Mortgage-related securities purchased for Other Guarantee Transactions ⁽⁵⁾	\$3,869	\$5,313	\$11,047	\$17,474

(1) Based on UPB.

(2) Excludes tax-exempt multifamily housing revenue bonds purchased for securitization in guarantee transactions.

(3) Consists of our purchases of subordinated tranches issued in K Certificate transactions.

(4) Primarily consists of purchases of Freddie Mac mortgage-related securities from: (a) third parties; (b) our initial securitization of mortgage loans purchased for cash; or (c) resecuritization activity.

(5) 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 the three and nine months ended September 30, 2014, 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.

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

At September 30, 2014, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were \$1.3 billion compared to \$3.9 billion at December 31, 2013. 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 September 30, 2014 were mainly attributable to 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” 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

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

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

Single-family Freddie Mac mortgage-related securities: We hold certain Other Guarantee Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of these Other Guarantee Transactions. For more information on single-family loans with certain higher-risk characteristics underlying our issued securities, see “RISK MANAGEMENT — Credit Risk — 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 of ContentsTable 19 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans and Certain Related Credit Statistics⁽¹⁾

	As of					
	9/30/2014	6/30/2014	3/31/2014	12/31/2013	9/30/2013	
	(dollars in millions)					
UPB:						
Subprime	\$30,706	\$34,083	\$37,958	\$39,694	\$40,779	
Option ARM	8,493	9,716	10,197	10,426	10,755	
Alt-A ⁽²⁾	4,995	6,339	7,904	9,147	9,866	
Gross unrealized losses, pre-tax: ⁽³⁾						
Subprime	\$880	\$1,577	\$2,037	\$2,780	\$4,667	
Option ARM	223	346	381	381	619	
Alt-A ⁽²⁾	30	59	83	135	304	
Present value of expected future credit losses: ⁽⁴⁾⁽⁵⁾						
Subprime	\$4,568	\$4,954	\$6,024	\$6,400	\$3,676	
Option ARM	1,161	1,470	1,651	1,802	1,683	
Alt-A ⁽²⁾	546	785	1,084	1,165	1,149	
Collateral delinquency rate: ⁽⁶⁾						
Subprime	32	% 33	% 34	% 35	% 35	%
Option ARM	27	29	31	32	33	
Alt-A ⁽²⁾	20	21	22	22	22	
Average credit enhancement: ⁽⁷⁾						
Subprime	9	% 6	% 7	% 9	% 10	%
Option ARM	—	(2)	(1)	—	—	
Alt-A ⁽²⁾	2	(1)	(1)	—	1	
Cumulative collateral loss: ⁽⁸⁾						
Subprime	32	% 32	% 31	% 30	% 30	%
Option ARM	25	25	24	24	24	
Alt-A ⁽²⁾	15	15	15	13	13	

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 (1) settlement amounts we received in 2013 and 2014 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 by other loans, which primarily consist of securities backed by home equity lines of credit.

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

(4) 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.

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

- (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.
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 total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated
- (7) securities; excludes credit enhancement provided by bond insurance. Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment. Average credit enhancements increased at September 30, 2014 primarily due to sales of non-agency mortgage-related securities included as part of a settlement agreement in the third quarter of 2014.
Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the
- (8) 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 \$6.4 billion at September 30, 2014 from \$7.3 billion at June 30, 2014. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses on our available-for-sale securities was primarily driven by: (a) sales of non-agency mortgage-related securities; and (b) realized cash shortfalls.

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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 the three months ended September 30, 2014, 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. 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 "NOTE 7: INVESTMENTS IN SECURITIES — 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 \$4.1 billion on impaired available-for-sale non-agency mortgage-related securities, including \$105 million and \$360 million related to the three and nine months ended September 30, 2014, 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. Principal cash shortfalls are presented net of amounts received related to insurance recoveries.

Table 20 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans

	Three Months Ended				
	9/30/2014	6/30/2014	3/31/2014	12/31/2013	9/30/2013
	(in millions)				
Principal repayments and cash shortfalls: ⁽²⁾					
Subprime:					
Principal repayments	\$845	\$877	\$889	\$1,021	\$1,048
Principal cash shortfalls	5	3	(4	) 8	35
Option ARM:					
Principal repayments	\$158	\$157	\$142	\$192	\$226
Principal cash shortfalls	74	93	88	100	161
Alt-A and other:					
Principal repayments	\$225	\$285	\$247	\$324	\$418
Principal cash shortfalls	25	31	41	43	51

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 (1) settlement amounts we received in 2013 and 2014 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."

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

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. For more information regarding settlements related to these efforts, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

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

We recorded net impairment of available-for-sale securities recognized in earnings of \$166 million and \$687 million during the three and nine months ended September 30, 2014, respectively, compared to \$126 million and \$213 million during the three and nine months ended September 30, 2013, respectively. For information about the mortgage-related securities for which we recognized other-than-temporary impairments in earnings, see "Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings." At September 30, 2014, our gross unrealized losses, pretax, on available-for-sale mortgage-related securities were \$1.3 billion.

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 September 30, 2014, 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 our current operational plans,

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models and strategies and, in the case of single-family non-agency mortgage-related securities, whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. The population of securities that we intend to sell may change from period to period. During the three and nine months ended September 30, 2014, net impairment of available-for-sale securities recognized in earnings included \$132 million and \$598 million, respectively, due to an increase in the population of available-for-sale securities in an unrealized loss position that we intend to sell. 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. 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, see "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — Investment Securities-Related Activities," as well as "NOTE 7: INVESTMENTS IN SECURITIES — Other-Than-Temporary Impairments on Available-for-Sale Securities" in our 2013 Annual Report. 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 September 30, 2014. As a result, we have concluded that the reduction in fair value of these securities was temporary at September 30, 2014 and have recorded these unrealized losses in AOCI.

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 at times been adversely affected by high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence. In addition, the loans which serve as collateral for the securities we hold have significantly greater concentrations in the states that have undergone the greatest economic stress during the housing crisis that began in 2006, such as California and Florida.

Our assessments concerning other-than-temporary impairment 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. 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 the factors that may affect our impairment assessments, see "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Higher Risk Components of Our Investments in Mortgage-Related Securities — Other-Than Temporary Impairments on Available-For-Sale Mortgage-Related Securities" in our 2013 Annual Report. For more information on risks associated with the use of models, see "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties" in our 2013 Annual Report.

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 September 30, 2014 based on their ratings as of September 30, 2014, as well as those held at December 31, 2013 based on their ratings as of December 31, 2013. 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 21 — Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of September 30, 2014	UPB	Percentage of UPB ⁽¹⁾	Amortized Cost	Gross Unrealized Losses	Bond Insurance Coverage ⁽²⁾
	(dollars in millions)				
Subprime, option ARM, Alt-A and other loans:					
AAA-rated	\$26	—%	\$26	\$—	\$7
Other investment grade	1,585	3	1,506	(11	) 402
Below investment grade ⁽³⁾	44,099	97	31,484	(1,125	) 2,569
Total	\$45,710	100	% \$33,016	\$(1,136	) \$2,978
CMBS:					
AAA-rated	\$10,401	45	% \$10,407	\$—	\$40
Other investment grade	10,715	47	10,666	(24	) 1,643
Below investment grade ⁽³⁾	1,788	8	1,772	(79	) 1,548
Total	\$22,904	100	% \$22,845	\$(103	) \$3,231
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	\$10,427	15	% \$10,433	\$—	\$47
Other investment grade	12,300	18	12,172	(35	) 2,045
Below investment grade ⁽³⁾	45,887	67	33,256	(1,204	) 4,117
Total	\$68,614	100	% \$55,861	\$(1,239	) \$6,209
Total investments in mortgage-related securities	\$138,775				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	49	%			
Credit Ratings as of December 31, 2013					
Subprime, option ARM, Alt-A and other loans:					
AAA-rated	\$114	—	% \$110	\$(1	) \$7
Other investment grade	2,417	4	2,308	(39	) 582
Below investment grade ⁽³⁾	58,605	96	42,420	(3,263	) 2,936
Total	\$61,136	100	% \$44,838	\$(3,303	) \$3,525
CMBS:					
AAA-rated	\$14,286	49	% \$14,299	\$—	\$41
Other investment grade	12,786	43	12,740	(131	) 1,653
Below investment grade ⁽³⁾	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 ⁽³⁾	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 57 %
investments in mortgage-related securities

(1) Within this column, "—" represents less than 0.5%.

(2) 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.

(3) 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 September 30, 2014 and December 31, 2013. 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 classified as held-for-investment on our consolidated balance sheets, approximately \$33.2 billion, or 2.0%, of these loans were seriously delinquent or in foreclosure as of September 30, 2014, compared to \$41.5 billion, or 2.5%, as of December 31, 2013. 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: IMPAIRED LOANS" for more information on our removal of single-family loans from PC trusts.

The UPB of unsecuritized single-family mortgage loans declined by \$9.3 billion to \$112.8 billion at September 30, 2014 from \$122.1 billion at December 31, 2013, primarily due to: (a) loan prepayments, foreclosure transfers, and foreclosure

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alternative activities; (b) securitization of reperforming and modified loans; (c) securitization of loans through our PC cash auction process, net of related purchases; and to a lesser extent (d) sales of seriously delinquent loans. This decline was partially offset by our removal of seriously delinquent single-family loans from PC trusts. As of September 30, 2014 and December 31, 2013, the balance of unsecuritized single-family mortgage loans included \$82.2 billion and \$78.0 billion, respectively, in UPB of mortgage loans classified as TDRs that were no longer seriously delinquent.

The UPB of unsecuritized multifamily mortgage loans was \$51.7 billion at September 30, 2014 and \$59.2 billion at December 31, 2013. 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 \$22.7 billion and \$24.7 billion at September 30, 2014 and December 31, 2013, respectively, including \$22.6 billion and \$24.6 billion, respectively, related to single-family loans. At September 30, 2014 and December 31, 2013, our allowance for loan losses, as a percentage of mortgage loans, held-for-investment, on our consolidated balance sheets was 1.3% and 1.4%, 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 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.

Table 22 — Mortgage Loan Purchases and Other Guarantee Commitment Issuances⁽¹⁾

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	Amount	% of Total ⁽²⁾	Amount	% of Total ⁽²⁾	Amount	% of Total ⁽²⁾	Amount	% of Total ⁽²⁾
	(dollars in millions)							
Mortgage loan purchases and other guarantee commitment issuances:								
Single-family:								
30-year or more amortizing fixed-rate	\$58,545	70	\$67,818	66	\$138,794	70	\$240,929	63
20-year amortizing fixed-rate	2,293	3	5,116	5	6,040	3	18,972	5
15-year amortizing fixed-rate	11,161	13	19,886	19	28,054	14	85,475	23
Adjustable-rate ⁽³⁾	4,594	6	4,940	5	11,241	6	13,974	4
FHA/VA and other governmental	65	—	73	—	160	—	225	—
Total single-family ⁽⁴⁾	76,658	92	97,833	95	184,289	93	359,575	95
Multifamily:								
10-year ⁽⁵⁾	2,566	3	3,505	4	4,436	2	12,901	4
7-year ⁽⁵⁾	3,004	4	1,254	1	6,741	3	4,655	1

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Other ⁽⁶⁾	1,377	1	507	—	2,885	2	1,244	—
Total multifamily ⁽⁷⁾	6,947	8	5,266	5	14,062	7	18,800	5
Total mortgage loan purchases and other guarantee commitment issuances	\$83,605	100 %	\$103,099	100 %	\$198,351	100 %	\$378,375	100 %
Percentage of mortgage loan purchases and other guarantee commitment issuances with credit enhancements ⁽⁸⁾	24 %		18 %		23 %		15 %	

Amount is the principal amount of the loans. Excludes the removal of seriously delinquent loans and balloon/reset (1) mortgages from PC trusts. Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.

(2) Within these columns, "—" represents less than 0.5%.

(3) 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.

(4) Includes \$14.5 billion and \$24.8 billion of conforming jumbo loan purchases and \$0.2 billion and \$0.9 billion of conforming jumbo loans underlying other guarantee commitment issuances for the nine months ended September 30, 2014 and 2013, respectively. Includes issuances of other guarantee commitments on single-family loans of \$2.1 billion and \$8.4 billion during the nine months ended September 30, 2014 and 2013, respectively.

(5) Represents original maturity of the loan. Includes interest-only and amortizing loans that may either be fixed or adjustable-rate.

(6) Includes other guarantee commitments on multifamily loans and multifamily mortgage loans with original maturities other than 10 years and 7 years.

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(7) Includes purchases of multifamily mortgage loans and settlements of bonds underlying tax-exempt securitization transactions.

(8) Excludes credit enhancement coverage occurring subsequent to our purchase or guarantee, such as through STACR debt notes or other risk transfer transactions (e.g., K Certificate 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.

Our single-family purchase activity declined in the 2014 periods compared to the 2013 periods. We expect the volume of single-family purchases in the fourth quarter of 2014 to remain lower than in the fourth quarter of 2013 due to reduced refinancing volume. During the nine months ended September 30, 2014, refinancings comprised approximately 46% of our single-family purchase and issuance volume, compared with 76% in the nine months ended September 30, 2013. We attribute this decline in refinancings to higher average mortgage interest rates in the first nine months of 2014 compared to the first nine months of 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future.

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.

At September 30, 2014, the net fair value of our total derivative portfolio was \$(1.0) billion compared to \$883 million at December 31, 2013. See “NOTE 9: DERIVATIVES” for information regarding our derivatives, and the notional or contractual amounts and related fair values of our total derivative portfolio by product type at September 30, 2014 and December 31, 2013, 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.

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, declined to \$2.9 billion at September 30, 2014 from \$4.6 billion at December 31, 2013 as dispositions exceeded acquisitions. The volume of our single-family REO acquisitions 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; (b) the volume of our foreclosure alternatives, which result in fewer loans proceeding to foreclosures, and thus fewer properties transitioning to REO; and (c) a larger proportion of property sales to third parties at foreclosure. 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 dispositions to remain at elevated levels in the near term, as we have a large REO inventory. See “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — REO Assets” for additional information about our REO activity.

Deferred Tax Assets and Liabilities

We had a net deferred tax asset of \$18.5 billion and \$22.7 billion as of September 30, 2014 and December 31, 2013, respectively.

We determined that a valuation allowance against our net deferred tax asset was not necessary at September 30, 2014. See “NOTE 12: INCOME TAXES” in our 2013 Annual Report for additional information.

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 \$7.9 billion as of September 30, 2014 from \$8.5 billion as of December 31, 2013 due to a decrease in receivables, including 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.

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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 presents the UPB for Freddie Mac-issued mortgage-related securities by the underlying mortgage product type.

Table 23 — Freddie Mac Mortgage-Related Securities

	September 30, 2014			December 31, 2013		
	Issued by Consolidated Trusts (in millions)	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
PCs and Other Structured Securities:						
Single-family:						
30-year or more amortizing fixed-rate	\$ 1,074,892	\$ —	\$ 1,074,892	\$ 1,040,602	\$ —	\$ 1,040,602
20-year amortizing fixed-rate	78,983	—	78,983	81,214	—	81,214
15-year amortizing fixed-rate	281,143	—	281,143	291,347	—	291,347
Adjustable-rate ⁽²⁾	68,226	—	68,226	66,250	—	66,250
Interest-only ⁽³⁾	24,916	—	24,916	29,083	—	29,083
FHA/VA and other governmental	3,202	—	3,202	3,366	—	3,366
Total single-family	1,531,362	—	1,531,362	1,511,862	—	1,511,862
Multifamily	84	4,736	4,820	—	4,778	4,778
Total single-family and multifamily	1,531,446	4,736	1,536,182	1,511,862	4,778	1,516,640
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family ⁽⁴⁾	7,351	2,839	10,190	8,396	3,079	11,475
Multifamily	441	69,218	69,659	444	59,326	59,770
Total Non-HFA bonds	7,792	72,057	79,849	8,840	62,405	71,245
HFA Initiative Bonds: ⁽⁵⁾						
Single-family	—	3,133	3,133	—	3,341	3,341
Multifamily	—	734	734	—	744	744
Total HFA Initiative Bonds	—	3,867	3,867	—	4,085	4,085
Total Other Guarantee Transactions	7,792	75,924	83,716	8,840	66,490	75,330
REMICs and Other Structured Securities backed by Ginnie Mae certificates ⁽⁶⁾						
Total Freddie Mac Mortgage-Related Securities	\$ 1,539,238	\$ 81,117	\$ 1,620,355	\$ 1,520,702	\$ 71,809	\$ 1,592,511
Less: Repurchased Freddie Mac Mortgage-Related Securities ⁽⁷⁾	(109,124)			(121,246)		
	\$ 1,430,114			\$ 1,399,456		

Total UPB of debt securities
of consolidated trusts held
by third parties

(1) Amounts represent the UPB of the securities.

Includes \$0.8 billion and \$0.9 billion in UPB of option ARM mortgage loans as of September 30, 2014 and

(2) December 31, 2013, 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.

Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and (4) also include \$5.0 billion and \$5.5 billion in UPB of securities backed by option ARM mortgage loans at September 30, 2014 and December 31, 2013, respectively.

(5) Consists of bonds we acquired and securitized under the NIBP.

(6) Backed by FHA/VA loans.

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

(7) third-party mortgage-related security holders. Our holdings of non-consolidated Freddie Mac mortgage-related securities are presented in "Table 16 — 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% at both September 30, 2014 and December 31, 2013. The UPB of multifamily Other Guarantee Transactions, excluding HFA initiative-related bonds, increased to \$69.7 billion as of September 30, 2014 from \$59.8 billion as of December 31, 2013, due to K Certificate issuances.

The table below shows issuances and extinguishments of the debt securities of our consolidated trusts during the three and nine months ended September 30, 2014 and 2013, as well as the UPB of consolidated trusts held by third parties.

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Table 24 — Issuances and Extinguishments of Debt Securities of Consolidated Trusts

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
	(in millions)			
Beginning balance of debt securities of consolidated trusts held by third parties	\$1,416,905	\$1,389,185	\$1,399,456	\$1,387,259
Issuances of debt securities of consolidated trusts	77,517	97,998	187,026	361,957
Debt securities of consolidated trusts retained by us at issuance ⁽²⁾	(21,652)	(10,137)	(32,870)	(33,474)
Net issuances of debt securities of consolidated trusts	55,865	87,861	154,156	328,483
Reissuances of debt securities of consolidated trusts previously held by us ⁽³⁾	29,817	18,012	69,296	39,493
Total issuances to third parties of debt securities of consolidated trusts	85,682	105,873	223,452	367,976
Extinguishments, net ⁽⁴⁾	(72,473)	(108,621)	(192,794)	(368,798)
Ending balance of debt securities of consolidated trusts held by third parties	\$1,430,114	\$1,386,437	\$1,430,114	\$1,386,437

(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 September 30, 2014 and 2013.

Total issuances to third parties of debt securities of consolidated trusts and extinguishments, net decreased during the three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013 primarily due to a decrease in refinance activity resulting from higher average mortgage interest rates in the first nine months of 2014 compared to the first nine months of 2013.

Other Liabilities

Other liabilities consist of servicer liabilities, the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities increased to \$5.9 billion as of September 30, 2014 from \$5.5 billion as of December 31, 2013 primarily due to the purchase of non-mortgage-related securities classified as trading that had not settled by the balance sheet date. See "NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS" for additional information.

Total Equity

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

Table 25 — Changes in Total Equity

	Three Months Ended				Nine Months Ended	
	9/30/2014	6/30/2014	3/31/2014	12/31/2013	9/30/2013	9/30/2014
	(in millions)					
Beginning balance	\$4,290	\$6,899	\$12,835	\$33,436	\$7,357	\$12,835
Net income	2,081	1,362	4,020	8,613	30,486	7,463
Other comprehensive income (loss), net of taxes:						

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Changes in unrealized gains (losses) related to available-for-sale securities	656	479	427	970	(127)	1,562
Changes in unrealized gains (losses) related to cash flow hedge relationships ⁽¹⁾	50	49	52	66	76	151
Changes in defined benefit plans	(1)	—	—	186	2	(1)
Comprehensive income	2,786	1,890	4,499	9,835	30,437	9,175
Capital draw funded by Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(1,890)	(4,499)	(10,435)	(30,436)	(4,357)	(16,824)
Other	—	—	—	—	(1)	—
Total equity/Net worth	\$5,186	\$4,290	\$6,899	\$12,835	\$33,436	\$5,186
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)	\$88,169	\$86,279	\$81,780	\$71,345	\$40,909	\$88,169

(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 does not reduce the outstanding liquidation preference.

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At September 30, 2014, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2014. We paid cash dividends to Treasury of \$16.8 billion during the nine months ended September 30, 2014. Based on our Net Worth Amount at September 30, 2014 and the 2014 Capital Reserve Amount of \$2.4 billion, our dividend obligation to Treasury in December 2014 will be \$2.8 billion.

Our available-for-sale securities net unrealized gains (losses) recorded in AOCI was \$2.5 billion and \$1.0 billion at September 30, 2014 and December 31, 2013, respectively. This \$1.6 billion improvement in AOCI was primarily due to fair value gains resulting from a decrease in longer-term interest rates coupled with the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity.

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. We are improving our risk management capabilities by further enhancing our three-lines-of-defense risk management framework. Our enhanced three-lines-of-defense risk management framework is designed to balance ownership of risk by our business segments with corporate oversight and independent assessment. See " — Operational Risks" for more information.

See "RISK FACTORS" in our 2013 Annual Report for additional information regarding these and other risks. See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" in this Form 10-Q and in our 2013 Annual Report for information about our interest rate and other market risks.

Credit Risk

We are subject primarily to two types of credit risk: (a) mortgage credit risk; and (b) 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 sellers describe mortgage eligibility and underwriting standards, and the sellers 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" in our 2013 Annual Report.

We do not have our own mortgage loan servicing operation. Instead, our customers perform the primary servicing function on our loans on our behalf. We have contractual arrangements with our servicers under which, when they service our mortgage loans, they represent and warrant to do so in accordance with our standards.

If we subsequently discover that the representations and warranties were breached (i.e., that 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. Under

our representation and warranty 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. In May 2014, at the direction of FHFA, we announced certain changes to this framework for loans acquired on and after July 1, 2014, including: (a) permitting borrowers to have up to two 30-day delinquencies during the first 36 months; and (b) providing relief from repurchase obligations for loans that have satisfactorily concluded a Freddie Mac quality control review. In addition, we will offer certain sellers an alternative to repurchasing a loan, for loans where the mortgage insurance coverage has been rescinded. In those cases we may allow the seller to indemnify us for any future claims of loss associated with the loan that would have been covered by the mortgage insurer. For more information on contractual arrangements with our seller/servicers and our representation and warranty framework, see "MD&A

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— RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Single-family Mortgage Seller/Service" in our 2014 Annual Report.

Under the 2014 Conservatorship Scorecard, FHFA set several goals for us relating to increasing access to single-family mortgage credit for creditworthy borrowers. On October 20, 2014, FHFA announced an agreement in principle concerning changes to Freddie Mac's and Fannie Mae's representation and warranty frameworks. FHFA is also working with Freddie Mac and Fannie Mae to develop responsible guidelines for mortgages with loan-to-value ratios between 95% and 97% to serve a targeted segment of creditworthy borrowers. For more information, see "LEGISLATIVE AND REGULATORY MATTERS — FHFA Announcements Concerning Representation and Warranty Framework and High LTV Mortgage Loans."

The table below presents certain credit information about loans in our single-family credit guarantee portfolio by year of origination as of September 30, 2014 and for the nine months ended September 30, 2014.

Table 26 — Single-Family Credit Guarantee Portfolio Data by Year of Origination

Year of Origination	September 30, 2014										Percent of Credit Losses ⁽⁵⁾
	Percent of Portfolio	Average Credit Score ⁽²⁾	Original LTV Ratio	Current LTV Ratio ⁽³⁾	Current LTV Ratio >100% ⁽³⁾⁽⁴⁾⁽⁵⁾	Serious Delinquency Rate	Foreclosure and Short Sale Rate ⁽⁶⁾	Percent of Credit Losses ⁽⁵⁾			
2014	8	% 747	76	% 76	% —	% 0.01	% —	% —	% —	%	
2013	16	754	71	65	—	0.04	—	—	—		
2012	15	761	69	57	—	0.07	0.01	—	—		
2011	7	757	69	55	—	0.23	0.05	—	—		
2010	6	754	69	57	—	0.44	0.14	—	—		
2009	6	751	69	59	1	0.89	0.40	2	—		
Subtotal - New single-family book HARP and other relief refinance loans ⁽⁷⁾	58	755	71	62	—	0.23	0.14	2	—		
2005-2008 Legacy single-family book	14	702	75	84	25	7.66	8.49	83	—		
Pre-2005 Legacy single-family book	8	709	73	48	2	3.12	1.40	8	—		
Total	100	% 740	75	67	7	1.96		100	%		

Except for the foreclosure and short sale rate, the data presented is based on the loans remaining in the portfolio at (1) September 30, 2014, which totaled \$1.7 trillion, rather than all loans originally guaranteed by us and originated in the respective year.

Based on FICO score of the borrower as of the date of loan origination or our purchase and may not be indicative (2) of the current creditworthiness of the borrower. Excludes less than 0.4% of loans in the portfolio because the FICO scores at origination were not available.

We estimate current market values by adjusting the value of the property at origination based on changes in the (3) market value of homes in the same geographic area since origination.

Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total (4) UPB of loans in the category.

(5) Within these columns, "—" represents less than 0.5%.

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

(6) September 30, 2014, divided by the number of loans originated in that year that were acquired in our single-family credit guarantee portfolio. The foreclosure and short sale rate presented for the Pre-2005 Legacy single-family book represents the rate associated with loans originated in 2000 through 2004.

(7) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2014). 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 the first nine months of 2014 generally led to improved current LTV ratios of the loans in our portfolio as of September 30, 2014. Loans with current LTV ratios greater than 100% comprised 7% and 10%, of our single-family credit guarantee portfolio, based on UPB at September 30, 2014 and December 31, 2013, respectively, and comprised approximately 64% and 72% of our credit losses recognized in the first nine months of 2014 and 2013, 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 721 and 722 at September 30, 2014 and December 31, 2013, respectively.

Although the serious delinquency rate for all our single-family loans was 1.96% at September 30, 2014, the rate for our New single-family book was 0.23% at that date, which we believe reflects both improvements in underwriting and relatively stable and improving economic conditions in recent years. Approximately one-half of our seriously delinquent single-family loans were greater than one year past due at September 30, 2014. Loans originated from 2005 through 2008 have experienced higher serious delinquency rates and 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

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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 (2006 through 2010). As of September 30, 2014, 8.5% 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 7.7% of loans originated in those years that remained in our single-family credit guarantee portfolio as of September 30, 2014 were seriously delinquent and 19.6% had been subject to loan modifications. The gradual reduction of our 2005-2008 Legacy single-family book has contributed to the improvement in the payment performance of our single-family credit guarantee portfolio. However, the rate at which the reduction of our 2005-2008 Legacy single-family book is occurring has been slowed by a decline in mortgage refinancings 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 \$156,000 and \$155,000 at September 30, 2014 and December 31, 2013. We purchased or issued other guarantee commitments for approximately 358,000 and 472,000 single-family loans totaling \$76.7 billion and \$97.8 billion of UPB during the third quarters of 2014 and 2013, respectively. Our single-family credit guarantee portfolio consists of first-lien mortgage loans predominantly secured by the borrower's primary residence. Approximately 94% of the single-family mortgages we purchased or guaranteed in the nine months ended September 30, 2014 were fixed-rate amortizing mortgages, based on UPB, and the remainder were ARM mortgage loans. Approximately 46% of the single-family mortgages we purchased or guaranteed in the first nine months of 2014 were refinance mortgages, including approximately 12% 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, delinquency rates, credit losses, and the proportion of loans underwritten with full documentation. In the first nine months of 2014, the proportion of loans in our New single-family book continued to increase. However, in recent quarters, as refinancing volumes have declined, the composition of our loan purchase activity has been shifting to a higher proportion of home purchase loans, which generally have higher original LTV ratios than loans sold to us during 2010 through 2012. During these same quarters, the average borrower credit scores in our loan purchase activity have declined.

During the nine months ended September 30, 2014 and 2013, we purchased or guaranteed more than 438,000 and 1.37 million, respectively, of single-family loans that were refinance mortgages, totaling \$85.4 billion and \$274.9 billion in UPB, respectively. Our purchases of refinance mortgages have significantly declined in the first nine months of 2014 compared to the same period in 2013. We attribute this decline to higher average mortgage interest rates in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future. At September 30, 2014 and December 31, 2013, there were approximately 10.6 million and 10.7 million loans, respectively, in our single-family credit guarantee portfolio, including 2.1 million and 2.0 million relief refinance mortgages, respectively.

The tables below provide additional characteristics of single-family mortgage loans purchased during the nine months ended September 30, 2014 and 2013, and of our single-family credit guarantee portfolio at September 30, 2014 and December 31, 2013.

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Table 27 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio

	Percent of Purchases During the Nine Months Ended September 30, 2014			2013			
	Relief Refi	All Other	Total	Relief Refi	All Other	Total	
Original LTV Ratio Range							
60% and below	2	% 14	% 16	% 4	% 20	% 24	%
Above 60% to 70%	1	11	12	2	13	15	
Above 70% to 80%	2	40	42	3	31	34	
Above 80% to 100%	4	23	27	7	12	19	
Above 100% to 125%	2	—	2	5	—	5	
Above 125%	1	—	1	3	—	3	
Total	12	% 88	% 100	% 24	% 76	% 100	%
Weighted average original LTV ratio	83	% 76	% 77	% 91	% 70	% 75	%
Credit Score ⁽²⁾							
740 and above	6	% 55	% 61	% 12	% 55	% 67	%
700 to 739	2	20	22	5	14	19	
660 to 699	2	10	12	4	6	10	
620 to 659	1	3	4	2	1	3	
Less than 620	1	—	1	1	—	1	
Total	12	% 88	% 100	% 24	% 76	% 100	%
Weighted average credit score:							
Total mortgages	712	748	744	728	757	750	

	Percent of Purchases During the Nine Months Ended September 30,		
	2014	2013	
Loan Purpose			
Purchase	54	% 24	%
Cash-out refinance	16	16	
Other refinance ⁽³⁾	30	60	
Total	100	% 100	%
Property Type			
Detached/townhome ⁽⁴⁾	92	% 93	%
Condo/Co-op	8	7	
Total	100	% 100	%
Occupancy Type			
Primary residence	88	% 88	%
Second/vacation home	4	4	
Investment	8	8	
Total	100	% 100	%

(1) Percentages are based on the UPB of the single-family credit guarantee portfolio. Within this table, "—" represents less than 0.5%.

(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 or our purchase and do not reflect any changes in the credit history of the borrower after that date.

Other refinance loans include: (a) refinance mortgages with “no cash out” to the borrower; and (b) refinance (3) 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.

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Table 28 — Characteristics of the Single-Family Credit Guarantee Portfolio

	Portfolio Balance at ⁽²⁾		
	September 30, 2014	December 31, 2013	
Original LTV Ratio Range			
60% and below	21	% 22	%
Above 60% to 70%	14	15	
Above 70% to 80%	39	38	
Above 80% to 100%	20	19	
Above 100%	6	6	
Total	100	% 100	%
Weighted average original LTV ratio	75	% 75	%
Estimated Current LTV Ratio Range ⁽³⁾			
60% and below	38	% 33	%
Above 60% to 70%	18	18	
Above 70% to 80%	19	20	
Above 80% to 90%	11	12	
Above 90% to 100%	7	7	
Above 100% to 120%	5	6	
Above 120%	2	4	
Total	100	% 100	%
Weighted average estimated current LTV ratio:			
Relief refinance mortgages	77	% 81	%
All other mortgages	64	66	
Total mortgages	67	69	
Credit Score ⁽⁴⁾			
740 and above	58	% 58	%
700 to 739	20	20	
660 to 699	13	13	
620 to 659	6	6	
Less than 620	3	3	
Total	100	% 100	%
Weighted average credit score:			
Relief refinance mortgages	733	735	
All other mortgages	742	740	
Total mortgages	740	739	
Loan Purpose			
Purchase	29	% 26	%
Cash-out refinance	21	22	
Other refinance ⁽⁵⁾	50	52	
Total	100	% 100	%
Property Type			
Detached/townhome ⁽⁶⁾	93	% 93	%
Condo/Co-op	7	7	
Total	100	% 100	%
Occupancy Type			
Primary residence	90	% 90	%
Second/vacation home	4	4	
Investment	6	6	
Total	100	% 100	%

Ending balances are based on the UPB of the single-family credit guarantee portfolio. Other Guarantee
(1) Transactions with ending balances of \$1 billion at both September 30, 2014 and December 31, 2013 are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.

Includes loans acquired under our relief refinance initiative, which comprised approximately 20% and 21% of our
(2) single-family credit guarantee portfolio based on UPB as of September 30, 2014 and December 31, 2013, respectively.

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

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Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points.

(4) 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 either at the time of loan origination or our purchase and may not be indicative of the current creditworthiness of the borrower. Credit score data was not available for less than 0.4% of loans in the single-family credit guarantee portfolio.

(5) 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.

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

High LTV Ratios

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 and in severity of losses as LTV ratios increase. Due to our participation in HARP, we have purchased a significant number of loans that have LTV ratios over 100% in recent periods. HARP loans with LTV ratios over 100% represented 3% and 8% of our single-family mortgage purchases in the first nine months of 2014 and 2013, respectively. The percentage of mortgages in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was 7% and 10% at September 30, 2014 and December 31, 2013, respectively, and the serious delinquency rate for these loans was 8.92% and 9.94%, respectively. The portion of our single-family credit guarantee portfolio with current LTV ratios greater than 100% declined in the first nine months of 2014 primarily due to foreclosures, short sales, and improving home prices in certain geographic areas during the period.

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. Based on data collected by us at loan delivery, approximately 14% of the loans in our single-family credit guarantee portfolio, as of both September 30, 2014 and December 31, 2013, had second-lien financing by third parties at origination of the first mortgage. As of September 30, 2014 and December 31, 2013, we estimate that these loans comprised 18% and 17% of our seriously delinquent loans based on UPB, respectively. 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 \$12.7 billion and \$12.8 billion of UPB at September 30, 2014 and December 31, 2013, 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, and that \$0.3 billion of the UPB was within our New single-family book at both dates. 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 37 — 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-Q 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, 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% of the UPB of our single-family credit guarantee portfolio at both September 30, 2014 and December 31, 2013. We discontinued purchasing such loans on September 1, 2010. The balance of these loans has declined significantly in recent years as many of

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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).

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 September 30, 2014 and December 31, 2013, option ARM loans represented less than 1% of the UPB of our single-family credit guarantee portfolio. Included in this exposure was \$5.0 billion and \$5.5 billion in UPB of option ARM securities underlying certain of our Other Guarantee Transactions at September 30, 2014 and December 31, 2013, respectively. While we have not categorized these option ARM securities as either subprime or Alt-A securities for presentation within this Form 10-Q 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 September 30, 2014 and December 31, 2013, approximately 12.0% and 11.0%, 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.”

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 \$14.7 billion and \$25.7 billion in UPB of conforming jumbo loans during the nine months ended September 30, 2014 and 2013, respectively. The UPB of conforming jumbo loans in our single-family credit guarantee portfolio as of September 30, 2014 and December 31, 2013 was \$76.4 billion and \$69.0 billion, respectively, and comprised 5% and 4% of the portfolio at September 30, 2014 and December 31, 2013, respectively. The average size of these loans was approximately \$509,000 and \$518,000 at September 30, 2014 and December 31, 2013, respectively. See “BUSINESS — Our Business” in our 2013 Annual Report 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-Q, 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-Q, 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 37 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for further information). In addition, we estimate that approximately \$1.7 billion and \$1.8 billion in UPB of security collateral underlying our Other Guarantee Transactions at September 30, 2014 and December 31, 2013, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At September 30, 2014 and December 31, 2013, we held \$30.7 billion and \$39.7 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime loans. Approximately 4% and 5% of these securities were investment grade at September 30, 2014 and December 31, 2013, respectively. The credit performance of loans underlying these securities

deteriorated significantly since 2008. For information on our exposure to subprime loans through our holdings of 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 \$50.2 billion as of September 30, 2014 from \$56.9 billion as of December 31, 2013 primarily due to borrowers 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

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though the borrower may have provided full documentation of assets and income before completing the modification. As of September 30, 2014 and December 31, 2013, approximately 19.0% and 16.3%, respectively, of the Alt-A loans within our single-family credit guarantee portfolio had completed a modification. As of September 30, 2014, for Alt-A loans in our single-family credit guarantee portfolio, the average FICO score at origination was 709. Although Alt-A mortgage loans comprised approximately 3% of our single-family credit guarantee portfolio as of September 30, 2014, these loans represented approximately 15% of our credit losses during the nine months ended September 30, 2014. 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-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to September 30, 2014, we have purchased approximately \$30.8 billion of relief refinance mortgages that were previously categorized as Alt-A loans in our portfolio, including \$1.9 billion in the nine months ended September 30, 2014.

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A loans. At September 30, 2014 and December 31, 2013, we held investments of \$6.5 billion and \$11.0 billion in UPB, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. Approximately 4% and 5% of these securities were categorized as investment grade at September 30, 2014 and December 31, 2013, 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 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.

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Table 29 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio

	As of September 30, 2014				
	UPB	Estimated Current LTV ⁽²⁾	Percentage Modified ⁽³⁾	Serious Delinquency Rate	
	(dollars in billions)				
Loans with one or more specified characteristics	\$364.5	90	% 8.4	% 4.32	%
Categories (individual characteristics):					
Alt-A	50.2	83	19.0	8.81	
Interest-only ⁽⁴⁾	29.2	88	0.1	9.89	
Option ARM ⁽⁵⁾	5.9	80	12.0	10.39	
Original LTV ratio greater than 90%, non-HARP mortgages	117.8	88	9.7	4.22	
Original LTV ratio greater than 90%, HARP mortgages	151.5	97	0.7	1.09	
Lower FICO scores at origination (less than 620) ⁽⁶⁾	45.7	80	18.8	8.71	
	As of December 31, 2013				
	UPB	Estimated Current LTV ⁽²⁾	Percentage Modified ⁽³⁾	Serious Delinquency Rate	
	(dollars in billions)				
Loans with one or more specified characteristics	\$364.5	94	% 8.1	% 5.31	%
Categories (individual characteristics):					
Alt-A	56.9	87	16.3	10.06	
Interest-only ⁽⁴⁾	34.7	93	0.2	12.51	
Option ARM ⁽⁵⁾	6.4	86	11.0	12.30	
Original LTV ratio greater than 90%, non-HARP mortgages	103.4	91	10.1	5.66	
Original LTV ratio greater than 90%, HARP mortgages	154.3	103	0.5	0.97	
Lower FICO scores at origination (less than 620) ⁽⁶⁾	47.8	83	17.4	9.99	

Categories are not additive and a single loan may be included in multiple categories if more than one characteristic (1) is associated with the loan. Excludes loans underlying certain Other Guarantee Transactions for which data was not available.

(2) See endnote (3) to “Table 28 — Characteristics of the Single-Family Credit Guarantee Portfolio” for information on our calculation of current LTV ratios.

Represents the percentage of loans based on loan count in our single-family credit guarantee portfolio at period end (3) 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.

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 (4) that have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.

(5) 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.

(6) See endnote (2) to “Table 27 — 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 (other than HARP mortgages) 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 was \$364.5 billion at both September 30, 2014 and December 31, 2013. We continue to purchase non-HARP mortgage loans with original LTV ratios greater than 90% 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

We use credit enhancements to mitigate some of our potential credit losses. Credit enhancements include: (a) primary mortgage insurance; (b) pool insurance; (c) recourse to lenders; and (d) STACR and ACIS risk transfer transactions. Our STACR and ACIS risk transfer transactions shift a portion of the mezzanine credit loss position on certain groups of loans in our New single-family book from us to third-party investors.

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.

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At September 30, 2014 and December 31, 2013, our credit-enhanced mortgages represented 22% and 17%, respectively, of our single-family credit guarantee portfolio based on UPB, excluding those backing Ginnie Mae Certificates and HFA bonds guaranteed by us under the HFA initiative. 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.

The portion of our single-family mortgage purchases in the nine months ended September 30, 2014 and 2013 that had credit enhancements (predominately primary mortgage insurance) was 25% and 16%, respectively. This increase is primarily due to a higher composition of home purchase loans and a lower volume of refinancings, particularly relief refinance loans, in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Purchases of loans with LTV ratios above 80% increased in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. 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 thus 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, if any, 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 \$0.6 billion and \$1.2 billion that reduced our charge-offs of single-family loans during the nine months ended September 30, 2014 and 2013, respectively. Recoveries of charge-offs declined primarily due to lower foreclosures and foreclosure alternative volume in the nine months ended September 30, 2014. Substantially all of these amounts represent recoveries associated with our primary mortgage insurance policies. We recognized recoveries from credit enhancements of \$162 million and \$139 million during the nine months ended September 30, 2014 and 2013, respectively, as part of REO operations income (expense).

We executed seven credit risk transfer transactions during the nine months ended September 30, 2014. After completing these transactions, we believe we have met our 2014 Conservatorship Scorecard goal to complete credit risk transfer transactions involving single-family mortgages with at least \$90 billion in aggregate UPB. These seven transactions consisted of five STACR debt note issuances and two ACIS transactions.

We believe that STACR debt note issuances allow us to transfer substantial credit risk on recently acquired single-family mortgage loans to third parties that invest in the issued notes. In these transactions, we first create a reference pool consisting of single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions (e.g., first, mezzanine, and senior loss positions). We retain the credit risk related to the first loss and senior loss positions. The credit risk related to the mezzanine loss position is typically divided as follows:

- We transfer a portion of the credit risk on the position to investors through the issuance of STACR debt notes;
- We may insure an additional portion of the position through an ACIS transaction; and
- We retain the remaining credit risk related to the position.

For further information about STACR transactions, including a diagram of the structure, see “BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements” in our 2013 Annual Report on Form 10-K.

The table below provides information about: (a) STACR and ACIS transactions completed during the nine months ended September 30, 2014 and 2013; and (b) balances of STACR and ACIS related amounts as of September 30, 2014 and December 31, 2013.

Table of ContentsTable 30 — Risk Transfer Transactions⁽¹⁾

	For the Nine Months Ended September 30, 2014			2013		
	Retained by Freddie Mac	Transferred to Third Parties ⁽²⁾	Total	Retained by Freddie Mac	Transferred to Third Parties ⁽²⁾	Total
	(in millions)					
Issuance information:						
First loss positions ⁽³⁾	\$ 536	\$—	\$ 536	\$ 68	\$—	\$ 68
Mezzanine loss positions:						
STACR debt notes	—	3,876	3,876	—	500	500
Non-issued (and ACIS) ⁽⁴⁾	1,626	284	1,910	110	—	110
Subtotal mezzanine loss positions	\$ 1,626	\$ 4,160	5,786	\$ 110	\$ 500	610
Senior (remaining) loss positions	\$ 117,421	\$—	117,421	\$ 21,906	\$—	21,906
Total reference pools			\$ 123,743			\$ 22,584
Additional ACIS transactions ⁽⁵⁾			\$ 270			\$—
	As of September 30, 2014			As of December 31, 2013		
	Retained by Freddie Mac	Transferred to Third Parties ⁽²⁾	Total	Retained by Freddie Mac	Transferred to Third Parties ⁽²⁾	Total
	(in millions)					
Remaining balance information:						
First loss positions ⁽³⁾	\$ 708	\$—	\$ 708	\$ 174	\$—	\$ 174
Mezzanine loss positions:						
STACR debt notes	—	4,901	4,901	—	1,107	1,107
Non-issued (and ACIS) ⁽⁴⁾	1,694	614	2,308	350	76	426
Subtotal mezzanine loss positions	\$ 1,694	\$ 5,515	7,209	\$ 350	\$ 1,183	1,533
Senior (remaining) loss positions	\$ 166,298	\$—	166,298	\$ 55,196	\$—	55,196
Total reference pools			\$ 174,215			\$ 56,903

(1) Based on UPB, except ACIS coverage, which is based on notional amount.

Mezzanine losses recoverable from third parties is based on a fixed severity schedule, which in some

(2) circumstances may also allow us to recover lost interest and other costs associated with resolving problem loans, including foreclosure costs.

(3) Represents Freddie Mac's exposure to credit losses on loans in the reference pools before any third parties (i.e., investors in STACR debt notes or ACIS insurance counterparties) absorb credit losses.

Amounts retained by Freddie Mac represent the balance of our mezzanine loss positions in STACR transactions reduced by coverage under ACIS transactions. Amounts transferred to third parties represent coverage under ACIS

(4) transactions, and are the maximum amount of coverage provided by insurance counterparties to absorb a portion of our mezzanine credit losses. Not all of our non-issued, mezzanine positions had coverage under ACIS at September 30, 2014.

(5) Represents an ACIS transaction during the period that relates to the mezzanine loss position of a STACR transaction completed in a prior period.

As of September 30, 2014 there has not been a significant amount of loans that experienced a credit event within the reference pools covered by STACR debt note transactions nor any claims for loss recoveries covered by our ACIS transactions.

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.

During the nine months ended September 30, 2014, we helped approximately 94,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various workout programs, and we completed approximately 39,000 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.

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Home Affordable Modification Program and Non-HAMP Modifications

Our primary loan modification initiatives are HAMP and our non-HAMP standard loan modification initiatives. These initiatives require 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 June 2014, Treasury announced that it would be extended for at least another year. However, it is still not known if FHFA will direct us to extend our version of HAMP as well. In 2013, as part of the servicing alignment initiative, we implemented a streamlined modification initiative, which provides an additional modification opportunity to certain borrowers. The modification that borrowers receive under this initiative has the same mortgage terms as our non-HAMP standard modification.

During the nine months ended September 30, 2014, approximately 52,000 borrowers (including 17,000 borrowers in the third quarter of 2014) having loans with aggregate UPB of \$10.1 billion completed modifications under all of our programs, and as of September 30, 2014, approximately 23,000 borrowers were in the modification trial period. For information about the percentage of completed loan modifications that remained current, see “Table 32 — Quarterly Percentages of Modified Single-Family Loans — Current or Paid Off.”

In recent years, our non-HAMP modifications have represented the majority of our modification volume. The portion of our modification volume that is HAMP-related continued to decline in the first nine months of 2014 primarily due to the decline in the number of borrowers eligible for HAMP.

During the first nine months of 2014, approximately 42,000 borrowers completed a non-HAMP loan modification. As of September 30, 2014, the percentage of our non-HAMP modifications that were completed in 2012 and 2013 that subsequently became seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 21% and 14%, respectively.

Based on information provided by the MHA Program administrator, our servicers had completed approximately 249,000 loan modifications under HAMP from the introduction of the initiative in 2009 through September 30, 2014. According to the administrator, the number of our loans in the HAMP trial period was 2,900 as of September 30, 2014. As of September 30, 2014, the percentage of our HAMP modifications that were completed in 2012 and 2013 that subsequently became seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 15% and 10%, respectively.

We incurred \$26 million and \$83 million of servicer incentive expenses on modified loans (both HAMP and non-HAMP) during the three and nine months ended September 30, 2014, respectively, as compared to \$40 million and \$112 million of such incentives during the three and nine months ended September 30, 2013, respectively. We also incur certain incentives for borrowers who continue to perform under their HAMP modification, which are included within our provision for credit losses on our consolidated statements of comprehensive income.

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. 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. There were \$42.8 billion in UPB of step-rate modified loans in our single-family credit guarantee portfolio at September 30, 2014.

Approximately 7% of these loans will experience interest rate resets in the fourth quarter of 2014, and approximately 48% will experience rate resets in 2015. As of September 30, 2014, 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%.

Loan Workout Volumes and Modification Performance

The table below presents volumes of single-family loan workouts, seriously delinquent loans, and foreclosures for the three and nine months ended September 30, 2014 and 2013.

Table of ContentsTable 31 — Single-Family Loan Workout, Serious Delinquency, and Foreclosure Volum⁽¹⁾

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	Number of Loans	Loan Balances	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⁾	73	\$ 8	43	\$ 6	287	\$37	127	\$15
with term extension	5,194	751	2,161	200	10,103	1,516	4,310	347
with change in interest rate and, in certain cases, term extension	7,953	1,526	11,678	1,679	27,722	5,332	33,966	4,768
with change in interest rate, term extension and principal forbearance	3,663	839	6,659	2,405	14,026	3,195	22,028	7,666
Total loan modifications ⁽³⁾	16,883	3,124	20,541	4,290	52,138	10,080	60,431	12,796
Repayment plans ⁽⁴⁾	5,441	759	6,603	926	19,744	2,769	21,515	3,016
Forbearance agreements ⁽⁵⁾	2,148	401	2,586	488	6,751	1,255	8,888	1,730
Total home retention actions	24,472	4,284	29,730	5,704	78,633	14,104	90,834	17,542
Foreclosure alternatives:								
Short sale	3,881	829	10,230	2,223	12,235	2,621	35,211	7,717
Deed in lieu of foreclosure transactions	969	149	768	125	2,740	433	1,671	270
Total foreclosure alternatives	4,850	978	10,998	2,348	14,975	3,054	36,882	7,987
Total single-family loan workouts	29,322	\$ 5,262	40,728	\$ 8,052	93,608	\$ 17,158	127,716	\$ 25,529
Seriously delinquent loan additions	48,323		58,176		144,375		180,481	
Single-family foreclosures ⁽⁶⁾	11,807		21,644		39,428		64,158	
Seriously delinquent loans, at period end	207,862		276,124		207,862		276,124	

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

(1) excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, but these workouts 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.

Includes completed loan modifications under HAMP; however, the number of such completions differs from that

(3) reported by the MHA Program administrator, in part, due to differences in the timing of recognizing the completions by us and the administrator.

Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a

(4) repayment plan for past due amounts. Excludes borrowers that are actively repaying past due amounts under a repayment plan, which totaled 14,273 and 17,089 borrowers as of September 30, 2014 and 2013, respectively.

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

(5) 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. Both our loan modification volume and the number of seriously delinquent loans remaining in the portfolio declined during the three and nine months ended September 30, 2014, compared to the 2013 periods, primarily due to lower volumes of single-family loans becoming seriously delinquent in the 2014 periods. We expect our loan modification volume in 2014 will be lower than in 2013. The volume of foreclosures has moderated in recent periods and reflects a 39% decline in the first nine months of 2014 compared to the first nine months of 2013.

The UPB of loans in our single-family credit guarantee portfolio for which we have completed a loan modification increased to \$84.7 billion as of September 30, 2014 from \$81.7 billion as of December 31, 2013. The number of modified loans in our single-family credit guarantee portfolio continued to increase, and such loans comprised approximately 4.0% and 3.8% of our single-family credit guarantee portfolio as of September 30, 2014 and December 31, 2013, respectively. For the nine months ended September 30, 2014, approximately 45% of our loan modifications were 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 95% at September 30, 2014. The serious delinquency rate on these loans was 12% as of September 30, 2014.

The volume of short sale transactions declined significantly in the three and nine months ended September 30, 2014 compared to the same periods in 2013. Our short sale activity has declined for the last six consecutive quarters.

The table below presents: (a) the percentage of modified single-family loans completed between the fourth quarter of 2011 and the third quarter of 2013 that were current or paid off one year after modification; and (b) the percentage of modified

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single-family loans completed between the fourth quarter of 2011 and the third quarter of 2012 that were current or paid off two years after modification.

Table 32 — Quarterly Percentages of Modified Single-Family Loans — Current or Paid¹ Off

	Quarter of Loan Modification Completion ⁽²⁾								
	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012	4Q 2011	
One Year Post-Modification									
HAMP modifications	80	% 80	% 82	% 80	% 80	% 81	% 81	% 79	%
Non-HAMP modifications	73	74	76	72	72	74	62	58	
Total	75	76	78	75	76	78	76	73	
Two Years Post-Modification									
HAMP modifications	N/A	N/A	N/A	N/A	76	% 78	% 77	% 75	%
Non-HAMP modifications	N/A	N/A	N/A	N/A	67	69	57	55	
Total	N/A	N/A	N/A	N/A	71	75	73	68	

(1) Represents the percentage of loans that were current and performing (no payment is 30 days or more past due) or had been paid in full. Excludes loans in modification trial periods. For loans modified in a quarterly period, the reperformance rates for one year and two years represent the percentage of loans that were current or paid off after 12 to 14 months and 24 to 26 months, respectively.

(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. HARP is scheduled to end at the end of 2015.

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. 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.

During the nine months ended September 30, 2014, refinancings comprised approximately 46% of our single-family purchase and issuance volume, compared with 76% in the nine months ended September 30, 2013. We attribute this decline to higher average mortgage interest rates in the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future.

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 of ContentsTable 33 — Single-Family Relief Refinance Loans⁽¹⁾

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	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	\$1,232	7,475	\$165,000	\$10,494	56,282	\$186,000
Above 100% to 125% LTV ratio	3,581	19,986	179,000	18,511	96,626	192,000
Above 80% to 100% LTV ratio	6,756	39,784	170,000	25,944	144,037	180,000
Other (80% and below LTV ratio)	9,988	73,396	136,000	31,689	233,575	136,000
Total relief refinance mortgages	\$21,557	140,641	153,000	\$86,638	530,520	163,000
As of September 30, 2014						
As of December 31, 2013						
	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	\$30,530	162,526	1.22	% \$30,579	158,531	0.90
Above 100% to 125% LTV ratio	67,227	348,680	1.11	68,416	344,832	1.01
Above 80% to 100% LTV ratio	111,746	614,117	0.89	114,688	610,128	0.85
Other (80% and below LTV ratio)	126,286	955,681	0.35	127,991	936,038	0.32
Total relief refinance mortgages	\$335,789	2,081,004	0.70	\$341,674	2,049,529	0.64

Purchase data 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.

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

(2) Rounded to the nearest thousand.

For more information on relief refinance loans, including HARP, in our single-family credit guarantee portfolio, see "Table 26 — Single-Family Credit Guarantee Portfolio Data by Year of Origination," and "Table 27 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio."

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.

The serious delinquency rate of our single-family credit guarantee portfolio declined to 1.96% as of September 30, 2014 (which is the lowest level since January 2009) from 2.39% as of December 31, 2013, continuing the trend of improvement that began in 2010. The improvement in our serious delinquency rate is primarily due to lower volumes of single-family loans becoming seriously delinquent, continued loss mitigation and foreclosure activities for loans in the Legacy single-family books, and the sale of certain seriously delinquent loans in the third quarter of 2014. As of September 30, 2014, our serious delinquency rate for the aggregate of those states that require a judicial foreclosure and all other states was 2.72% and 1.33%, respectively, compared to 3.31% and 1.63%, respectively, as of December 31, 2013.

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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 September 30, 2014 and December 31, 2013, the percentage of seriously delinquent loans that have been delinquent for more than six months was 70% and 71%, 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; (c) are in geographic areas where the foreclosure process has lengthened or is subject to judicial review; or (d) may determine that it is not economically beneficial for them to enter into a modification due to the amount of costs incurred on their behalf while the loan was delinquent. The longer a loan remains delinquent, the greater the associated costs we incur, in part due to expenses associated with loss mitigation and foreclosure. The table below presents serious delinquency rates and information about seriously delinquent loans in our single-family credit guarantee portfolio.

Table 34 — Single-Family Serious Delinquency Statistics

	As of September 30, 2014			As of December 31, 2013		
	Percentage ⁽¹⁾	Serious Delinquency Rate ⁽²⁾		Percentage ⁽¹⁾	Serious Delinquency Rate ⁽²⁾	
Credit Protection:						
Non-credit-enhanced	78	% 1.80	%	83	% 2.09	%
Credit-enhanced: ⁽³⁾						
Primary mortgage insurance	13	% 2.84	%	12	% 4.40	%
Other ⁽⁴⁾	11	% 1.41	%	5	% 3.66	%
Total ⁽⁵⁾		1.96	%		2.39	%
	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate
State: ⁽⁶⁾⁽⁷⁾						
Florida	28,613	14	% 4.37	% 42,948	17	% 6.44
New York	19,765	10	4.11	21,459	8	4.41
New Jersey	17,232	8	5.58	19,306	8	6.20
Illinois	12,408	6	2.26	15,521	6	2.79
California	11,871	6	0.97	15,620	6	1.30
All others	115,823	56	1.57	137,907	55	1.85
Total	205,712	100	%	252,761	100	%
	# of Seriously Delinquent Loans	Percent		# of Seriously Delinquent Loans	Percent	
Aging, by locality: ⁽⁷⁾						
Judicial states: ⁽⁸⁾						
Less than or equal to 1 year	49,928	25	%	59,129	23	%
More than 1 year and less than or equal to 2 years	24,057	12		30,604	12	

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More than 2 years	52,377	25		65,154	26	
Non-judicial states: ⁽⁸⁾						
Less than or equal to 1 year	49,795	24		60,175	24	
More than 1 year and less than or equal to 2 years	14,292	7		17,968	7	
More than 2 years	15,263	7		19,731	8	
Combined: ⁽⁸⁾						
Less than or equal to 1 year	99,723	49		119,304	47	
More than 1 year and less than or equal to 2 years	38,349	19		48,572	19	
More than 2 years	67,640	32		84,885	34	
Total	205,712	100	%	252,761	100	%
Payment Status:						
One month past due	1.54	%		1.73	%	
Two months past due	0.51	%		0.57	%	

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- (1) Represents the portion of loans in our single-family credit guarantee portfolio for each category of credit protection.
In the third quarter of 2014, we revised our presentation of single-family non-credit enhanced and credit-enhanced serious delinquency rates. As part of this revision, we began categorizing loans covered by our STACR and ACIS (2) risk transfer transactions as credit-enhanced, whereas they had previously been categorized as non-credit-enhanced. This revision did not impact our total single-family serious delinquency rate. Prior periods have been revised to conform with the current presentation.
- The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary (3) mortgage insurance and other credit protection. See “Institutional Credit Risk” for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio.
- Consists of single-family mortgage loans covered by financial arrangements (other than primary mortgage (4) insurance) that are designed to reduce our credit risk exposure, including loans in reference pools of mortgages covered by STACR transactions as well as other forms of credit protection.
- (5) As of September 30, 2014 and December 31, 2013, approximately 54% and 61%, respectively, of the single-family loans reported as seriously delinquent were in the process of foreclosure.
- (6) Represent the states with the highest number of seriously delinquent loans as of September 30, 2014. Excludes loans underlying certain single-family Other Guarantee Transactions since the geographic information is not available to us for these loans. The serious delinquency rate for all single-family Other Guarantee Transactions (7) was 10.37% and 10.91% as of September 30, 2014 and December 31, 2013, respectively. Single-family Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics.
- For this presentation, the states and territories classified as having a judicial foreclosure process consist of: CT, (8) DC, DE, FL, HI, IA, IL, IN, KS, KY, LA, ME, ND, NE, NJ, NM, NY, OH, OK, OR, PA, PR, SC, SD, VI, VT, and WI. All other states are classified as having a non-judicial foreclosure process.
- Our servicing guidelines require that our servicers refrain from starting the foreclosure process on a primary residence until a loan is at least 121 days delinquent, regardless of where the property is located. However, we evaluate the timeliness of foreclosure completion by our servicers based on the state where the property is located. Our servicing guide states that for loans beginning the foreclosure process since July 2013, the expected timeline to complete foreclosure, excluding allowable delays, ranges from 240 days in Alabama to 820 days in New York (and 990 days within New York City). Our guide provides for instances of allowable foreclosure delays in excess of the expected timelines for specific situations involving delinquent loans, such as when the borrower files for bankruptcy or appeals a denial of a loan modification. On October 20, 2014, FHFA announced that FHFA, Freddie Mac and Fannie Mae reached an agreement in principle on modifying compensatory fees and foreclosure timelines, the details of which will be announced in the near future.
- The table below presents the average completion times in certain states for foreclosures completed during the nine months ended September 30, 2014 and 2013.
- Table 35 — Foreclosure Timelines for Single-Family Loans

	Nine Months Ended September 30,	
	2014	2013
	(average days)	
Judicial states:		
Florida	1,313	1,221
New Jersey	1,361	1,204
New York	1,262	1,090
All other judicial states	780	763
Judicial states, in aggregate	1,025	927
Non-judicial states, in aggregate	661	561
Total	874	760

(1) Average days presented are based on foreclosures completed in the period. All averages exclude those loans underlying our Other Guarantee Transactions.

During the nine months ended September 30, 2014, a significant number of loans that had been subject to delays shown above (and that had been delinquent for more than a year) completed the foreclosure process, which caused the nationwide average time for foreclosure completions to increase compared to the nine months ended September 30, 2013.

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.

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Table 36 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of September 30, 2014			As of December 31, 2013		
	Alt-A UPB (in billions)	Non Alt-A UPB	Total UPB	Alt-A UPB	Non Alt-A UPB	Total UPB
Geographic distribution:						
Arizona, California, Florida, and Nevada ⁽¹⁾	\$21	\$409	\$430	\$23	\$399	\$422
Illinois, Michigan, and Ohio ⁽²⁾	3	170	173	4	172	176
New York and New Jersey ⁽³⁾	7	138	145	7	138	145
All other states	19	892	911	23	887	910
Year of origination ⁽⁴⁾ :						
2014	—	134	134	N/A	N/A	N/A
2013	—	272	272	—	270	270
2012	—	247	247	—	265	265
2011	—	108	108	—	120	120
2010	—	100	100	—	113	113
2009	—	104	104	—	120	120
HARP and other relief refinance loans ⁽⁴⁾	—	336	336	—	342	342
2005-2008 Legacy single-family book	42	187	229	48	220	268
Pre-2005 Legacy single-family book	8	121	129	9	146	155
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Alt-A	Non Alt-A	Total	Alt-A	Non Alt-A	Total
	(in millions)					
Credit Losses						
Geographic distribution:						
Arizona, California, Florida, and Nevada ⁽¹⁾	\$183	\$877	\$1,060	\$702	\$1,445	\$2,147
Illinois, Michigan, and Ohio ⁽²⁾	56	415	471	136	691	827
New York and New Jersey ⁽³⁾	70	226	296	42	86	128
All other states	116	903	1,019	202	1,086	1,288
Year of origination ⁽⁴⁾ :						
2014	—	—	—	N/A	N/A	N/A
2013	—	—	—	—	—	—
2012	—	2	2	—	1	1
2011	—	4	4	—	7	7
2010	—	16	16	—	22	22
2009	—	47	47	—	79	79
Subtotal - New single-family book	—	69	69	—	109	109
HARP and other relief refinance loans ⁽⁴⁾	—	209	209	—	268	268
2005-2008 Legacy single-family book	403	1,953	2,356	1,042	2,560	3,602
Pre-2005 Legacy single-family book	22	190	212	40	371	411

(1)

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

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

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

(4) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2014). 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 37 — Single-Family Credit Guarantee Portfolio by Attribute Combinations

	As of September 30, 2014													
	Current LTV Ratio ≤ 80 ⁽¹⁾		Current LTV Ratio of > 80 to 100 ⁽¹⁾		Current LTV > 100 ⁽¹⁾		Current LTV Ratio All Loans ⁽¹⁾							
By Product Type	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio	Percentage of Portfolio
FICO scores < 620:	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate	Rate
20 and 30- year or more amortizing fixed-rate	1.2	7.19	0.6	10.52	0.6	15.87	2.4	23.0	9.51					
15- year amortizing fixed-rate	0.2	3.31	—	2.27	—	3.56	0.2	1.1	3.26					
ARMs/adjustable rate ⁽⁴⁾	0.1	9.58	—	15.64	—	29.09	0.1	14.5	11.99					
Interest-only ⁽⁵⁾	—	11.12	0.1	19.05	—	26.58	0.1	0.2	18.89					
Other ⁽⁶⁾	—	3.82	—	9.41	—	17.71	—	6.1	5.49					
Total FICO scores < 620	1.5	6.40	0.7	10.52	0.6	16.22	2.8	18.8	8.71					
FICO scores of 620 to 659:														
20 and 30- year or more amortizing fixed-rate	2.6	4.73	1.2	8.04	0.8	13.45	4.6	17.6	6.78					
15- year amortizing fixed-rate	0.5	1.95	—	1.57	0.1	1.36	0.6	0.5	1.92					
ARMs/adjustable rate ⁽⁴⁾	0.1	4.43	—	11.19	0.1	25.80	0.2	4.1	7.36					
Interest-only ⁽⁵⁾	0.1	8.43	0.1	14.14	—	23.84	0.2	0.3	15.60					
Other ⁽⁶⁾	—	3.44	—	4.03	—	7.29	—	2.9	4.32					
Total FICO scores of 620 to 659	3.3	4.06	1.3	7.92	1.0	13.87	5.6	13.6	6.07					
FICO scores of ≥ 660:														
20 and 30- year or more amortizing fixed-rate	50.4	0.94	13.9	2.31	4.7	6.56	69.0	3.9	1.57					
15- year amortizing fixed-rate	15.5	0.31	0.8	0.38	0.2	0.70	16.5	0.1	0.32					
ARMs/adjustable rate ⁽⁴⁾	3.6	0.89	0.5	4.12	0.1	16.36	4.2	0.8	1.75					
Interest-only ⁽⁵⁾	0.6	3.88	0.5	8.99	0.4	15.77	1.5	0.1	8.92					
Other ⁽⁶⁾	—	1.88	0.1	1.67	—	3.20	0.1	1.1	2.01					
Total FICO scores ≥ 660	70.1	0.76	15.8	2.41	5.4	7.10	91.3	2.7	1.33					
Total FICO scores not available	0.2	5.48	0.1	11.96	—	20.03	0.3	10.1	6.67					
All FICO scores:														

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20 and 30- year or more amortizing fixed-rate	54.3	1.40	15.7	3.18	6.1	8.45	76.1	5.7	2.27	
15- year amortizing fixed-rate	16.2	0.44	0.9	0.50	0.2	0.86	17.3	0.1	0.45	
ARMs/adjustable rate ⁽⁴⁾	3.8	1.41	0.5	5.24	0.2	18.80	4.5	1.5	2.46	
Interest-only ⁽⁵⁾	0.7	4.46	0.6	9.84	0.5	17.09	1.8	0.1	9.89	
Other ⁽⁶⁾	0.1	8.41	0.2	5.38	—	11.21	0.3	10.1	7.82	
Total single-family credit guarantee portfolio ⁽⁷⁾	75.1	% 1.15	% 17.9	% 3.28	% 7.0	% 8.92	% 100.0	% 4.0	% 1.96	%
By Region ⁽⁸⁾										
FICO scores < 620:										
North Central	0.3	% 4.92	% 0.1	% 7.68	% 0.1	% 12.37	% 0.5	% 17.6	% 7.00	%
Northeast	0.4	9.71	0.2	16.09	0.2	23.66	0.8	21.6	13.11	
Southeast	0.3	6.68	0.1	9.99	0.2	16.77	0.6	19.8	9.16	
Southwest	0.2	5.08	0.1	9.66	—	14.39	0.3	12.8	6.19	
West	0.3	4.35	0.2	7.98	0.1	11.17	0.6	20.9	6.17	
Total FICO scores < 620	1.5	6.40	0.7	10.52	0.6	16.22	2.8	18.8	8.71	
FICO scores of 620 to 659:										
North Central	0.5	3.22	0.3	5.86	0.2	10.21	1.0	12.9	4.91	
Northeast	0.9	6.15	0.3	12.61	0.3	21.18	1.5	15.0	9.27	
Southeast	0.6	4.42	0.3	7.77	0.3	14.63	1.2	14.5	6.70	
Southwest	0.5	3.02	0.1	6.08	—	10.71	0.6	8.4	3.75	
West	0.8	2.98	0.3	6.49	0.2	10.27	1.3	16.7	4.67	
Total FICO scores of 620 to 659	3.3	4.06	1.3	7.92	1.0	13.87	5.6	13.6	6.07	
FICO scores ≥ 660:										
North Central	11.4	0.59	3.4	1.76	1.0	4.93	15.8	2.2	1.04	
Northeast	18.2	1.12	4.2	3.82	1.2	11.77	23.6	2.7	1.96	
Southeast	10.2	0.98	2.9	2.48	1.4	7.95	14.5	3.2	1.78	
Southwest	8.9	0.55	1.8	1.11	0.1	3.94	10.8	1.2	0.67	
West	21.4	0.50	3.5	2.33	1.7	5.30	26.6	3.8	0.99	
Total FICO scores ≥ 660	70.1	0.76	15.8	2.41	5.4	7.10	91.3	2.7	1.33	
Total FICO scores not available	0.2	5.48	0.1	11.96	—	20.03	0.3	10.1	6.67	
All FICO scores:										
North Central	12.1	0.86	3.8	2.42	1.3	6.52	17.2	3.5	1.53	
Northeast	19.5	1.71	4.8	5.14	1.7	14.58	26.0	4.2	2.87	
Southeast	11.2	1.49	3.4	3.42	1.8	9.76	16.4	4.9	2.56	
Southwest	9.7	0.95	2.0	1.99	0.2	6.43	11.9	2.3	1.17	
West	22.6	0.69	3.9	2.85	2.0	6.23	28.5	4.8	1.31	
Total single-family credit guarantee portfolio ⁽⁷⁾	75.1	% 1.15	% 17.9	% 3.28	% 7.0	% 8.92	% 100.0	% 4.0	% 1.96	%

(1)

The current LTV ratios are our estimates. See endnote (3) to “Table 28 — Characteristics of the Single-Family Credit Guarantee Portfolio” for further information.

(2)Based on UPB of the single-family credit guarantee portfolio. Within these columns, "—" represents less than 0.05%.

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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 have been added to the outstanding principal balance of the loan.

(4) Includes balloon/reset and option ARM mortgage loans.

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.

(6) Consist of FHA/VA and other government guaranteed mortgages.

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 (4) to “Table 28 — Characteristics of the Single-Family Credit Guarantee Portfolio” for further information about our presentation of FICO scores.

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).

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 prior approval underwriting approach on the loans we purchase or guarantee; (b) selling the expected credit risk to private investors that hold the subordinated tranches in our multifamily K Certificate transactions; (c) portfolio diversification, particularly by product and geographic 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: IMPAIRED 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 September 30, 2014 and December 31, 2013.

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Table 38 — Multifamily Mortgage Portfolio — by Attribute

	UPB at		Delinquency Rate ⁽¹⁾ at		
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	
	(dollars in billions)				
Original LTV ratio					
Below 75%	\$94.7	\$93.1	0.02	% 0.06	%
75% to 80%	34.8	34.1	0.04	0.15	
Above 80%	5.7	5.6	0.04	0.19	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Weighted average LTV ratio at origination	70	% 70	%		
Maturity Dates					
2014	\$0.2	\$2.1	—	% 0.12	%
2015	4.8	6.9	—	0.05	
2016	9.4	11.2	—	—	
2017	9.3	10.0	—	0.43	
2018	16.4	17.0	—	—	
2019	17.8	17.5	0.07	0.07	
Beyond 2019	77.3	68.1	0.03	0.09	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Year of Acquisition or Guarantee ⁽²⁾					
2007 and prior	\$29.3	\$34.2	0.08	% 0.24	%
2008	11.6	13.2	0.03	0.18	
2009	10.3	11.2	—	—	
2010	10.3	10.9	0.12	0.13	
2011	15.2	15.9	—	—	
2012	23.0	23.7	—	—	
2013	22.5	23.7	—	—	
2014	13.0	N/A	—	N/A	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Current Loan Size					
Above \$25 million	\$51.5	\$50.6	—	% 0.05	%
Above \$5 million to \$25 million	74.6	73.2	0.04	0.11	
\$5 million and below	9.1	9.0	0.12	0.14	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Legal Structure					
Unsecuritized loans	\$51.7	\$59.2	0.02	% 0.08	%
K Certificates	69.7	59.8	0.02	0.07	
Other Freddie Mac mortgage-related securities	4.8	4.8	0.24	0.59	
Other guarantee commitments	9.0	9.0	—	—	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Credit Enhancement					
Credit-enhanced	\$79.5	\$70.2	0.03	% 0.11	%
Non-credit-enhanced	55.7	62.6	0.02	0.07	
Total	\$135.2	\$132.8	0.03	% 0.09	%
Payment Type					
Interest-only	\$20.1	\$20.1	—	% 0.14	%

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Partial interest-only ⁽³⁾	30.6	32.6	—	—	
Amortizing	84.5	80.1	0.05	0.12	
Total	\$135.2	\$132.8	0.03	% 0.09	%

(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. Within these columns, “—” represents less than 0.005%.

(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 key loan attribute we monitor. Borrowers may be less able to refinance their obligations during periods of rising interest rates or adverse market conditions, which could lead to default if the borrower is unable to find affordable refinancing before the loan matures. Of the \$51.7 billion in UPB of our unsecuritized multifamily mortgage loans on our consolidated balance sheets as of September 30, 2014, approximately 9% will mature during the fourth quarter of 2014 and 2015, and the remaining 91% 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 September 30, 2014 and December 31, 2013, approximately 63% and 60%, 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 September 30, 2014 and December 31, 2013, approximately 23% and 25%, 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 \$83.9 billion in UPB of multifamily loans between 2009 and September 30, 2014 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 (that 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. At September 30, 2014 and December 31, 2013, the UPB of K Certificates with subordination coverage was \$69.2 billion and \$59.3 billion, respectively, and the average subordination coverage on these securities was 18% at both dates. 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.

Our delinquency rates continue to be among the lowest in the industry. There were 9 and 16 delinquent loans in our multifamily mortgage portfolio at September 30, 2014 and December 31, 2013, respectively. Our multifamily mortgage portfolio delinquency rate of 0.03% and 0.09% at September 30, 2014 and December 31, 2013, respectively, reflects continued strong portfolio performance and positive market fundamentals. Our delinquency rate for credit-enhanced loans was 0.03% and 0.11% at September 30, 2014 and December 31, 2013, respectively, and for non-credit-enhanced loans was 0.02% and 0.07% at September 30, 2014 and December 31, 2013, respectively. The delinquency rate on loans underlying our K Certificates transactions was 0.02% and 0.07% at September 30, 2014 and December 31, 2013, respectively. Since we began issuing K Certificates, we have experienced no credit losses associated with our guarantees on these securities. As of September 30, 2014, approximately 67% of the loans in our multifamily mortgage portfolio 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.

TDRs and Non-Accrual Mortgage Loans

TDRs represent those loans where we have granted a concession to a borrower who is experiencing financial difficulties. Loans that have been classified as TDRs remain categorized as such throughout the remaining life of the loan regardless of whether the borrower makes payments that 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.

We place loans, including TDRs, 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. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in our 2013 Annual Report and “NOTE 5: IMPAIRED LOANS” for further information about our TDRs and non-accrual loans.

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

Table 39 — TDRs and Non-Accrual Mortgage Loans

	September 30, 2014	December 31, 2013	September 30, 2013
(dollars in millions)			
TDRs on accrual status:			
Single-family	\$82,152	\$78,033	\$73,416
Multifamily	597	675	700
Subtotal —TDRs on accrual status	82,749	78,708	74,116
Non-accrual loans:			
Single-family ⁽²⁾	34,145	42,829	46,615
Multifamily ⁽³⁾	411	628	934
Subtotal — non-accrual loans	34,556	43,457	47,549
Total TDRs and non-accrual mortgage loans	\$117,305	\$122,165	\$121,665
Loan loss reserves associated with:			
TDRs on accrual status	\$14,079	\$14,254	\$13,590
Non-accrual loans	7,336	8,924	9,861
Total loan loss reserves associated with TDRs and non-accrual loans ⁽⁴⁾	\$21,415	\$23,178	\$23,451
Ratio of total loan loss reserves (excluding TDR concessions) to net charge-offs for single-family loans ⁽⁵⁾	3.1	2.6	1.9
Ratio of total loan loss reserves to net charge-offs for single-family loans ⁽⁶⁾	6.3	4.9	3.4
	For the nine months ended September 30,		
	2014	2013	
Foregone interest income on TDR and non-accrual mortgage loans ⁽⁷⁾ :	(in millions)		
Single-family	\$2,574		\$2,896
Multifamily	4		6
Total foregone interest income on TDR and non-accrual mortgage loans	\$2,578		\$2,902

(1)Based on UPB.

(2) Includes \$17.9 billion, \$19.6 billion, and \$20.4 billion in UPB of seriously delinquent loans classified as TDRs at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

(3) Includes \$0.4 billion, \$0.6 billion, and \$0.9 billion in UPB of loans that were current as of September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

(4) The total loan loss reserve for all loans was \$22.7 billion, \$24.7 billion, and \$25.0 billion as of September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

(5) Calculated as: (a) the total loan loss reserve balance for single-family loans less our estimate of reserve amounts associated with TDR concessions as of September 30, 2014, December 31, 2013, and September 30, 2013; divided by (b) the annualized charge-offs, net of recoveries (excluding recoveries for settlement related amounts), associated with single-family loans during the three months ended September 30, 2014, December 31, 2013, and September 30, 2013, respectively. Both the charge-offs and loan loss reserves exclude amounts associated with loans acquired with deteriorated credit quality (at time of our acquisition).

Calculated as: (a) the total loan loss reserve balance for single-family loans as of September 30, 2014, December 31, 2013, and September 30, 2013; divided by (b) the annualized charge-offs, net of recoveries (excluding recoveries for settlement related amounts), associated with single-family loans during the three months ended (6) September 30, 2014, December 31, 2013, and September 30, 2013, respectively. Both the charge-offs and loan loss reserves exclude amounts associated with loans acquired with deteriorated credit quality (at time of our acquisition).

Represents the amount of interest income that we did not recognize, but would have recognized during the period for TDR and non-accrual mortgage loans outstanding at the end of each period had the loans performed according (7) to their original contractual terms. Also includes reversals of previously recognized interest income. The majority of our multifamily TDR loans were current as of the end of each period and interest income has been recognized on a cash basis.

The UPB of our non-accrual mortgage loans declined to \$34.6 billion as of September 30, 2014 from \$43.5 billion as of December 31, 2013, and the UPB of mortgage loans classified as TDR continued to increase. We expect the amount of mortgage loans classified as TDRs to remain at elevated levels for the foreseeable future. The portion of our single-family loan loss reserve associated with mortgage loans classified as TDR where we have reduced the contractual interest rate (i.e., provided an interest rate concession to the borrower) was approximately 62% of the loan loss reserve associated with single-family TDR loans at September 30, 2014. See “Credit Loss Performance — Loan Loss Reserves” for information about the decline in our loan loss reserves in the first nine months of 2014.

REO Assets

The table below provides detail by region for REO activity. Our REO activity consists almost entirely of single-family residential properties. See “Table 37 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for information about regional serious delinquency rates of loans in our single-family credit guarantee portfolio.

Table of ContentsTable 40 — REO Activity by Region⁽¹⁾

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(number of properties)			
REO Inventory				
Single-family:				
Inventory, beginning of period	36,134	44,623	47,307	49,071
Acquisitions, by region:				
Northeast	1,706	3,317	5,960	7,217
Southeast	3,025	6,697	12,377	17,792
North Central	2,279	5,488	8,208	16,542
Southwest	768	1,668	2,954	5,446
West	870	2,271	4,125	6,743
Total single-family acquisitions	8,648	19,441	33,624	53,740
Dispositions, by region:				
Northeast	(2,344	) (1,618	) (7,099	) (5,046
Southeast	(5,637	) (5,135	) (17,833	) (15,791
North Central	(4,196	) (5,959	) (15,352	) (20,091
Southwest	(1,322	) (1,964	) (4,862	) (6,636
West	(1,939	) (2,269	) (6,441	) (8,128
Total single-family dispositions	(15,438	) (16,945	) (51,587	) (55,692
Inventory at September 30,	29,344	47,119	29,344	47,119
Multifamily:				
Inventory, beginning of period	1	5	1	6
Acquisitions	—	—	1	3
Dispositions	(1	) (4	) (2	) (8
Inventory at September 30,	—	1	—	1
Total inventory at September 30,	29,344	47,120	29,344	47,120

(1) See endnote (8) to “Table 37 — Single-Family Credit Guarantee Portfolio by Attribute Combinations” for a description of these regions.

Our REO inventory (measured in number of properties) declined 38% from December 31, 2013 to September 30, 2014 primarily due to: (a) REO dispositions exceeding our acquisitions; (b) a declining number of seriously delinquent loans; and (c) a larger proportion of property sales to third parties at foreclosure. We continued to experience a relatively high volume of REO dispositions during the first nine months of 2014, which we believe was driven by significant demand for single-family homes from both investors and owner-occupant buyers. We expect our REO dispositions to remain at elevated levels in the near term, as we have a large REO inventory. We expect our REO acquisitions to continue to decline, due primarily to the continued decline in the number of seriously delinquent loans in our single-family credit guarantee portfolio.

The volume of our single-family REO acquisitions in recent years 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.

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. However, our single-family REO acquisition activity in the Southeast and North Central regions was high during the first nine months of 2014, in part because a significant number of loans that had experienced significant delays within these regions completed the foreclosure process.

Our single-family REO acquisitions in the nine months ended September 30, 2014 were most significant in the states of Florida, Illinois, Ohio, and Michigan which collectively represented 40% of total single-family REO acquisitions during that period, based on the number of properties, and comprised 40% of our total single-family REO property inventory at September 30, 2014.

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 September 30,

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2014. The percentage of our REO acquisitions in the nine months ended September 30, 2014 that had been financed by either of these loan types represented approximately 23% 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 77% of our REO acquisition activity during the nine months ended September 30, 2014.

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. 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 221 days and 205 days for our REO dispositions during the nine months ended September 30, 2014 and 2013, respectively.

The Southeast region comprised 30% of our single-family REO property inventory, based on the number of properties, as of both September 30, 2014 and December 31, 2013 and the North Central region comprised 29% and 33%, respectively. The North Central 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. In the Southeast region, Florida comprised 19% of our total single-family REO inventory at September 30, 2014 and has been one of the states with high REO severity rates in the last several years. See "NOTE 6: REAL ESTATE OWNED" for more information on our REO properties.

The table below provides information about our REO properties at September 30, 2014 and December 31, 2013.

Table 41 — Single-Family REO Property Status

	As of September 30, 2014		As of December 31, 2013	
	(percent of properties)			
Available for sale	27	%	30	%
Pending settlement of sale ⁽¹⁾	18		14	
Pre-listing ⁽²⁾	11		10	
Unable to market:				
Redemption period ⁽³⁾	10		11	
Occupied (waiting for eviction or vacancy)	15		18	
Under repair and other ⁽⁴⁾	19		17	
Subtotal — unable to market	44		46	
Total	100	%	100	%

(1) Consists of properties where we have an executed sales contract and settlement has not yet occurred.

(2) Consists of properties that are not being actively marketed because we are evaluating the property condition or determining our sale strategy.

(3) Consists of properties located in jurisdictions that require a period of time after foreclosure during which the borrower may reclaim the property.

(4) Includes properties where we are preparing the property for sale and other properties where marketing is on hold, including where we are involved in litigation or other legal and regulatory issues concerning the property.

As shown in the table above, a significant portion of the properties in our REO inventory are unable to be marketed because they are in the process of being repaired, remain occupied, or are located in states with a redemption period (particularly in the states of Illinois, Michigan, and Minnesota). During the third quarter of 2014, we began to increase the number of auction sales of our occupied REO properties that are unable to be marketed in a more traditional sales channel, which helped reduce this portion of our inventory.

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 42 — Credit Loss Performance

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(dollars in millions)			
REO				
REO balances, net:				
Single-family	\$2,911	\$4,366	\$2,911	\$4,366
Multifamily	—	2	—	2
Total	\$2,911	\$4,368	\$2,911	\$4,368
REO operations (income) expense:				
Single-family	\$109	\$(67)	\$120	\$(168)
Multifamily	(6)	(12)	(8)	(15)
Total	\$103	\$(79)	\$112	\$(183)
Charge-offs				
Single-family:				
Charge-offs, gross ⁽¹⁾ (including \$1.1 billion, \$2.3 billion, \$3.8 billion and \$7.3 billion, relating to loan loss reserves, respectively)	\$1,109	\$2,361	\$3,826	\$7,474
Recoveries ⁽²⁾	(190)	(1,730)	(1,100)	(2,916)
Single-family, net	\$919	\$631	\$2,726	\$4,558
Multifamily:				
Charge-offs, gross ⁽¹⁾ (including \$0 million, \$3 million, \$2 million and \$4 million, relating to loan loss reserves, respectively)	\$—	\$3	\$2	\$26
Recoveries ⁽²⁾	(1)	—	(1)	(1)
Multifamily, net	\$(1)	\$3	\$1	\$25
Total Charge-offs:				
Charge-offs, gross ⁽¹⁾ (including \$1.1 billion, \$2.3 billion, \$3.8 billion and \$7.3 billion relating to loan loss reserves, respectively)	\$1,109	\$2,364	\$3,828	\$7,500
Recoveries ⁽²⁾	(191)	(1,730)	(1,101)	(2,917)
Total Charge-offs, net	\$918	\$634	\$2,727	\$4,583
Credit Losses ⁽³⁾				
Single-family	\$1,028	\$564	\$2,846	\$4,390
Multifamily	(7)	(9)	(7)	10
Total	\$1,021	\$555	\$2,839	\$4,400
Total (in bps) ⁽⁴⁾	22.6	12.3	20.9	32.7

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. Prior period amounts have been revised to conform with the current period presentation.

(1) 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 certain 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 \$0.5 billion and \$1.6

billion in the nine months ended September 30, 2014 and 2013, respectively, related to repurchase requests made to our seller/servicers (including \$0.3 billion and \$1.1 billion in the nine months ended September 30, 2014 and 2013, respectively, related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments).

Excludes foregone interest on TDRs and non-accrual 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:

(3) (a) incurred on our investments in mortgage loans and mortgage-related securities; and (b) recognized in our consolidated statements of comprehensive income.

Calculated as credit losses divided by the average carrying value of our total mortgage portfolio, excluding (4) 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 the three and nine months ended September 30, 2014 were \$1.1 billion and \$3.8 billion, respectively, compared to \$2.4 billion and \$7.5 billion for the three and nine months ended September 30, 2013, respectively. These charge-offs were associated with approximately \$2.6 billion and \$8.5 billion in UPB of loans for the three and nine months ended September 30, 2014, respectively, and \$5.5 billion and \$17.3 billion for the three and nine months ended September 30, 2013, respectively. Our single-family charge-offs, gross, were significantly lower in the

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nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily due to: (a) lower volumes of foreclosures and foreclosure alternatives; and (b) improvements in home prices in many of the areas in which we have had significant foreclosure and short sale activity. Single-family charge-offs, net, in the nine months ended September 30, 2014 and 2013 include recoveries of \$0.3 billion and \$1.1 billion, respectively, related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. We expect our charge-offs and credit losses to continue to be lower than the level we experienced in 2013, but to remain elevated in the near term due to the substantial number of delinquent and underwater single-family mortgage loans in our single-family credit guarantee portfolio that will likely be resolved. See "LEGISLATIVE AND REGULATORY MATTERS — FHFA Advisory Bulletin" for information about our adoption of the FHFA advisory bulletin.

Our single-family credit losses during the nine months ended September 30, 2014 were highest in Florida and Illinois. Collectively, these two states comprised approximately 37% and 39% of our total credit losses in the three and nine months ended September 30, 2014, respectively. Our 2005-2008 Legacy single-family book comprised approximately 14% of our single-family credit guarantee portfolio, based on UPB at September 30, 2014; however, these loans accounted for approximately 83% of our credit losses during the nine months ended September 30, 2014. At September 30, 2014, 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 69% of our credit losses recognized in the nine months ended September 30, 2014. 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 43 — Severity Ratios for Single-Family Loans

	For the Three Months Ended				
	9/30/2014	6/30/2014	3/31/2014	12/31/2013	9/30/2013
REO disposition severity ratio: ⁽¹⁾					
Florida	36.2	% 37.0	% 40.5	% 40.4	% 40.5
Illinois	38.2	39.0	40.9	43.4	43.7
New Jersey	40.1	41.6	42.6	45.8	51.4
Maryland	36.4	35.0	35.7	37.4	38.0
California	24.5	25.0	27.3	24.4	28.7
Total U.S.	33.9	33.4	35.6	35.8	34.9
Short sale severity ratio ⁽²⁾	32.0	30.5	31.6	32.5	34.5

States presented represent the five states where our credit losses were greatest during the nine months ended September 30, 2014. Calculated as the amount of our credit losses recorded on disposition of REO properties during the respective quarterly period, excluding those subject to repurchase requests made to our seller/servicers, (1) 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.

Calculated as the amount of our losses recorded on short sales during the respective quarterly period divided by the (2) 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.

We believe our REO disposition and short sale severity ratios in the nine months ended September 30, 2014 benefited from: (a) changes made in 2012 to our process for evaluating the market value of impaired loan collateral and determining the list price for our REO properties when we offer them for sale; (b) repairing a higher percentage of our REO properties prior to listing them; and (c) improved market conditions.

As shown in the table above, our severity ratios associated with REO dispositions and short sales generally improved in the first, second, and third quarters of 2014 compared to the rates experienced in the third quarter of 2013, but also remained high in several states. 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” in our 2013 Annual Report for information on our accounting policies for allowance for loan losses and reserve for guarantee losses and impaired loans. Our single-family loan loss reserves declined from \$24.6 billion at December 31, 2013 to \$22.6 billion at September 30, 2014, 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

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REO dispositions and short sale transactions largely resulting from the improvements in home prices in most areas during the period.

The portion of our loan loss reserves attributable to individually impaired loans remains high. Our loan loss reserves attributable to individually impaired loans represented 80% of our loan loss reserves at September 30, 2014. This reflects a significant increase in TDRs in recent years and the reserves associated with these loans largely reflect the reduction in contractual interest rate (i.e., we provided an interest rate concession to the borrower) at the time of loan modification. The majority of these modified loans were current and performing at September 30, 2014. Although the housing market continued to improve in many geographic areas, we expect that our loan loss reserves may remain elevated for an extended period because: (a) a significant portion of our reserves is 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 primarily for borrower concessions on such loans which will decline over time as the loan is repaid or completes 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 September 30, 2014 and December 31, 2013, the recorded investment of individually impaired single-family mortgage loans was \$100.2 billion and \$98.1 billion, respectively, and the loan loss reserves associated with these loans were \$18.2 billion and \$18.6 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 18% and 19% of the balance as of September 30, 2014 and December 31, 2013, respectively. Our loan loss reserve associated with collectively evaluated single-family loans as a percentage of the total recorded investment of these loans was 0.3% and 0.4% of the balance as of September 30, 2014 and December 31, 2013, 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: IMPAIRED LOANS” for additional information about our impaired loans. See “CONSOLIDATED RESULTS OF OPERATIONS —(Provision) Benefit for Credit Losses,” for a discussion of our (provision) benefit 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 44 — Single-Family Impaired Loans with Specific Reserve Recorded

	2014		2013	
	Number of Loans	Amount (dollars in millions)	Number of Loans	Amount
TDRs (recorded investment):				
TDRs, at January 1,	514,497	\$92,505	449,145	\$83,484
New additions	61,345	8,891	87,271	13,967
Repayments and other ⁽¹⁾	(20,972)	(3,802)	(23,191)	(3,980)
Loss events ⁽²⁾	(19,432)	(3,356)	(26,260)	(4,748)
TDRs, at September 30,	535,438	94,238	486,965	88,723
Other (recorded investment) ⁽³⁾	10,308	785	14,545	1,281
Total impaired loans with specific reserve	545,746	95,023	501,510	90,004
Total allowance for loan losses of individually impaired single-family loans		(18,199)		(18,092)
Net investment, at September 30,		\$76,824		\$71,912

(1) Includes reduction of specific reserves related to the reclassification of certain loans from held-for-investment to held-for-sale.

(2) Foreclosure transfers or foreclosure alternatives, such as a deed in lieu of foreclosure or short sale transaction.

(3) Loans impaired upon purchase as of September 30.

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 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 45 — 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:				
September 30, 2014	\$4,280	25.8	\$3,980	24.0
June 30, 2014	4,199	25.4	3,891	23.6
March 31, 2014	4,351	26.4	4,035	24.4
December 31, 2013	3,931	23.8	3,628	21.9
September 30, 2013	4,059	24.6	3,734	22.6

(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

We continue to face challenges in reducing our risk concentrations with counterparties. 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” in our 2013 Annual Report.

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 50% of our single-family purchase volume during the nine months ended September 30, 2014. Wells Fargo Bank, N.A. accounted for 13% of our single-family mortgage purchase volume and was the only single-family seller/servicer that comprised 10% or more of our purchase volume during the nine months ended September 30, 2014.

Although our business with our mortgage sellers is concentrated, a number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring a greater portion of our business volume directly from smaller depository and non-depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could also be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting or eligibility breach.

Our exposure to single-family mortgage seller/servicers for 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, has declined significantly in recent quarters. The UPB of loans subject to open repurchase requests (both seller and servicer related) declined to \$0.8 billion at September 30, 2014 from \$2.2 billion at December 31, 2013 as we resolved many of the requests that had been outstanding for more than four months. The balance as of September 30, 2014 and December 31, 2013 excludes \$0.2 billion and \$0.3 billion, respectively, in UPB related to notices of defect for servicing violations. During the nine months ended September 30, 2014, we recovered amounts from seller/servicers with respect to \$1.7 billion in UPB of loans subject to our repurchase requests, including \$0.4 billion in UPB related to settlement agreements to release specified loans from certain repurchase obligations in exchange for one-time cash

payments. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS - Seller/Servicers" for more information about these agreements.

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.

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 probable incurred losses, in our loan loss reserves; however, our actual losses may exceed our estimates.

We do not have our own mortgage loan servicing operation. Instead, our customers perform the primary servicing function on our loans on our behalf. Our servicers have an active role in our loss mitigation efforts, as we rely on them to

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perform loan workout activities as well as foreclosures on loans that they service for us. A decline in their performance could affect the overall quality of our credit performance (including by missing opportunities for mortgage modifications), which could significantly affect our ability to mitigate credit losses. Our credit losses could increase to the extent that our servicers do not fully perform these obligations in a timely manner. The risk of a decline in their performance remains high. A significant portion of our single-family mortgage loans are serviced by several large servicers. Our top two single-family loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 23% and 12%, respectively, of our single-family mortgage loans as of September 30, 2014 and were the only servicers that serviced more than 10% of our loans at that date.

We continue to face challenges with respect to the performance of certain of our servicers in managing our seriously delinquent loans. 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.

During the nine months ended September 30, 2014, excluding transfers between affiliated companies and assignments of servicing for newly originated loans, approximately \$8.5 billion in UPB of loans in our single-family credit guarantee portfolio were transferred from our primary servicers to specialty servicers, which are non-bank financial institutions that specialize in workouts of problem loans. Approximately \$5.4 billion in UPB of loans in these transfers were facilitated by us as part of our efforts to assist troubled borrowers, maximize foreclosure alternatives, increase problem loan workouts, and mitigate our credit losses. Some of these specialty servicers have grown rapidly in recent years and now service a large share of our loans. These specialty servicers may not have the same financial strength or operational capacity as our depository servicers. Specialty servicers, including subsidiaries of Ocwen Financial Corp., or Ocwen, have recently been the subject of significant adverse regulatory scrutiny from regulators, and Ocwen's credit rating has been downgraded. Several of these specialty servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities, as discussed in "Agency and Non-Agency Mortgage-Related Security Issuers." 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, including as a result of regulatory actions or ratings downgrades, our business and financial results could be adversely affected. We also seek remedies from servicers such as compensatory fees for failure to perform certain requirements with respect to the servicing of delinquent loans. As of both September 30, 2014 and December 31, 2013, approximately 10% of our total single-family credit guarantee portfolio was serviced by our three largest non-depository specialty servicers. For more information on our exposure to our seller/servicers and repurchase requests, 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" in our 2013 Annual Report.

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 12%, respectively, of our multifamily new business volume for the nine months ended September 30, 2014. Our top 10 multifamily sellers represented an aggregate of approximately 84% of our multifamily new business volume for the nine months ended September 30, 2014.

A significant portion of our multifamily mortgage portfolio, excluding loans underlying K Certificates, is serviced by several large multifamily servicers. As of September 30, 2014, 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 loans underlying K Certificates, and together serviced approximately 38% of this portfolio.

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 is 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 requires FHFA approval under certain circumstances.

Aligning mortgage insurer eligibility requirements is a key component of the 2014 Conservatorship Scorecard and the 2014 Strategic Plan. We are developing counterparty risk management standards for mortgage insurers, in conjunction with Fannie Mae, at the direction of FHFA, consisting of the following: (a) revised eligibility requirements, which include financial requirements under a risk-based framework; and (b) revised master policies that provide greater certainty of coverage and

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facilitate timely claims processing. The revised standards are designed to provide that mortgage insurers are able to withstand a stress economic scenario and fulfill their intended role of providing private capital to the mortgage market. Revised master policies with our mortgage insurance counterparties were implemented October 1, 2014. FHFA published the draft eligibility requirements for public input during a comment period that concluded on September 8, 2014. We expect to publish the new eligibility requirements by the end of 2014, that will become effective 180 days after the publication date. Approved insurers that do not fully comply with the new financial requirements would be given a transition period of up to two years from the publication date.

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 capital ratios required by their state insurance regulators. Although the financial condition of these mortgage insurers has improved in recent quarters, there is still a significant risk that some of these counterparties may fail to fully meet their obligations. Except for those insurers in rehabilitation or under regulatory 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. However, in recent years, new entrants have emerged that will likely diversify a concentrated industry over time.

The table below summarizes our exposure to mortgage insurers as of September 30, 2014. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. Our most significant exposure to these insurers is through primary mortgage insurance. As of September 30, 2014, we had primary mortgage insurance coverage on loans that represented approximately 13% of the UPB of our single-family credit guarantee portfolio.

Table 46 — Mortgage Insurance by Counterparty⁽¹⁾

Counterparty Name	Credit Rating	Credit Rating Outlook	As of September 30, 2014			
			UPB of Covered Loans		Coverage Outstanding	
			Primary Insurance ⁽²⁾	Pool Insurance ⁽²⁾	Primary Insurance ⁽³⁾	Pool Insurance ⁽³⁾
			(in millions)			
Radian Guaranty Inc. (Radian)	BB-	Positive	\$48,947	\$ 2,645	\$12,416	\$ 796
Mortgage Guaranty Insurance Corporation (MGIC)	BB-	Stable	47,491	1,353	12,136	5
United Guaranty Residential Insurance Company	BBB+	Stable	47,151	120	12,065	32
Genworth Mortgage Insurance Corporation	BB-	Positive	30,718	209	7,774	41
Essent Guaranty, Inc.	BBB	Stable	15,355	—	3,898	—
PMI Mortgage Insurance Co. (PMI) ⁽⁴⁾	Not Rated	N/A	12,466	158	3,080	69
Republic Mortgage Insurance Company (RMIC)	Not Rated	N/A	9,943	232	2,475	38
Triad Guaranty Insurance Corporation (Triad) ⁽⁵⁾	Not Rated	N/A	4,574	71	1,153	7
Arch Mortgage Insurance Company (Arch) ⁽⁶⁾	BBB+	Stable	3,186	1	790	—
Others	N/A	N/A	640	—	154	—
Total			\$220,471	\$ 4,789	\$55,941	\$ 988

Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of October 23, 2014. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Table 4.5 — Recourse and Other Forms of Credit Protection" for further information.

Represents the remaining aggregate contractual limit for reimbursement of losses under the respective policy type.

These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance.

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

In December 2013, under a plan approved by its state regulator, Triad began paying valid claims 75% in cash and 25% in deferred payment obligations.

In January 2014, Arch announced it had completed the acquisition of CMG Mortgage Insurance Company (CMG) and the purchase of the mortgage insurance operating platform of PMI. Arch assumed the obligations of CMG in that transaction.

We received proceeds of \$1.0 billion and \$1.6 billion during the nine months ended September 30, 2014 and 2013, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers (excluding deferred payment obligations associated with unpaid claim amounts), net of associated reserves, of \$0.3 billion and \$0.5 billion at September 30, 2014 and December 31, 2013, respectively.

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PMI and Triad are both in rehabilitation, and a substantial portion of their claims are recorded by us as deferred payment obligations. These insurers no longer issue new insurance but continue to pay a portion of their respective claims in cash. The state regulators of these insurers have generally not allowed them to pay their respective deferred payment obligations in cash. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers shown in the table above. As of September 30, 2014, we had cumulative unpaid deferred payment obligations of \$0.4 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain.

RMIC is under regulatory supervision and is no longer issuing new insurance. In June 2014, RMIC announced that it would: (a) resume paying valid claims at 100% of the claim amount without further deferrals, effective with claims settled on or after July 1, 2014, and (b) pay, in full, all deferred payment obligations outstanding as of June 30, 2014. In July 2014, we received RMIC's payment of all deferred payment obligations owed to us. Previously, RMIC had been paying all valid claims 60% in cash and 40% in deferred payment obligations.

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 47 — Bond Insurance by Counterparty⁽⁴⁾

Counterparty Name	Credit Rating	Credit Rating Outlook	As of September 30, 2014	
			Coverage Outstanding ⁽²⁾ (dollars in millions)	Percent of Total Coverage Outstanding ⁽³⁾ %
Ambac Assurance Corporation (Ambac) ⁽⁴⁾	Not Rated	N/A	\$3,434	48
Financial Guaranty Insurance Company (FGIC) ⁽⁴⁾	Not Rated	N/A	1,209	17
National Public Finance Guarantee Corp.	A-	Negative	1,055	15
MBIA Insurance Corp.	B	Stable	821	12
Assured Guaranty Municipal Corp.	A	Stable	477	7
Syncora Guarantee Inc. (Syncora) ⁽⁴⁾	Not Rated	N/A	43	1
CIFG Assurance North America, Inc.	Not Rated	N/A	30	—
Total			\$7,069	100

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 October 23, 2014. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

(1) Represents maximum principal exposure to credit losses.

(2) Within this column, "—" represents less than 0.5%.

(3) 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 January 2014, FGIC, which had not paid claims since November 2009, began making cash payments of 17% in cash and the remainder in deferred payment obligations. In June 2014, Ambac, which was previously paying claims 25% in cash, announced that it would: (a) increase the amount of cash payments to 45% of the permitted amount of each policy claim, effective July 20, 2014, and (b) make a one-time cash payment for claims that were previously settled at 25% in cash. Ambac also continued 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 our 2013 Annual Report.

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

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impairment determinations on our non-agency mortgage-related securities at September 30, 2014 and December 31, 2013. 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 counterparty 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 investments in non-mortgage-related securities at September 30, 2014 and December 31, 2013 were in U.S. Treasury securities.

Our cash and other investment (including cash equivalent) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of September 30, 2014 and December 31, 2013, including amounts related to our consolidated VIEs, there were \$52.4 billion and \$85.9 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 — Competitive and Market Risks — Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us" in our 2013 Annual Report for further information. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for further information on counterparty credit ratings and concentrations within our cash and other investments.

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 have continued to recognize impairment charges in recent periods 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.

A significant portion of single-family mortgages underlying our investments in non-agency mortgage-related securities is serviced by specialty servicers. As of September 30, 2014, approximately 42% of our investments in single-family non-agency mortgage-related securities, based on UPB, were serviced by Ocwen, and this was the only specialty servicer who serviced 10% or more of our recorded investment in non-agency mortgage-related securities at that date. The expansion of these specialty servicers' portfolios could adversely impact these securities in the event that the transfers of loan servicing to these parties introduce operational and capacity challenges. Several of these specialty servicers also service a large share of our loans, as discussed in "Single-family Mortgage Seller/Servicers." 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. The effectiveness of our efforts is uncertain and any potential recoveries may take significant time to realize. Our loss mitigation activities include litigation against the issuers of certain of these securities.

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 often not sufficient to allow us to adequately analyze decisions made by servicers that may directly impact the cash flows on such securities. As a result, as part of our loss mitigation efforts and in the exercise of our rights as an investor, we seek to obtain information from servicers and trustees related to the performance and servicing of the loans underlying the securities. Certain of this information may not be publicly available. 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. While our ability to influence servicing performance is limited, it is possible that our loss mitigation activities may, in some cases, influence the performance of these securities. We may cease these or other loss mitigation activities at any time, including in connection with sales of these securities as we continue to reduce the size of our mortgage-related investments portfolio. However, a number of other parties (including other investors, regulators, or the mortgage servicers themselves) may also take actions that could also affect the performance of these securities. During the nine months ended September 30, 2014, we and FHFA reached settlements with certain parties pursuant to which we received an aggregate of approximately \$6.1 billion. Lawsuits against a number of other parties are currently

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pending. For more information on our loss mitigation efforts related to the non-agency mortgage-related securities we hold, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS - Non-Agency Mortgage-Related Security Issuers.”

Derivative Counterparties

We use cleared derivatives, exchange-traded derivatives, and OTC derivatives, and are exposed to institutional credit risk with respect to these derivatives. For more information about these derivatives and how we seek to manage our exposure to institutional credit risk related to our derivative counterparties, see “MD&A — RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Derivative Counterparties” in our 2013 Annual Report.

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. For OTC interest-rate swaps and option-based derivatives that are in an asset position, we hold collateral against those positions in accordance with agreed upon thresholds. The collateral posting thresholds assigned to 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 and option-based derivative 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 “NOTE 9: DERIVATIVES” for a reconciliation of fair value to the amounts presented on our consolidated balance sheets as of September 30, 2014, which includes both cash collateral held and posted by us, net.

Table 48 — Derivative Counterparty Credit Exposure

Rating ⁽¹⁾	As of September 30, 2014				
	Number of Counterparties ⁽²⁾	Notional or Contractual Amount ⁽³⁾	Total Exposure at Fair Value ⁽⁴⁾	Exposure, Net of Collateral ⁽⁵⁾	Collateral Posting Threshold
	(dollars in millions)				
AA- or above	4	\$43,613	\$197	\$18	\$10 million or less
A+/A/A-	12	300,960	1,688	26	\$1 million or less
BBB+ or below	2	45,930	—	22	\$ —
Subtotal	18	390,503	1,885	66	
Cleared and exchange-traded derivatives		183,768	—	302	
Commitments		47,070	88	88	
Swap guarantee derivatives		3,305	—	—	
Other derivatives ⁽⁶⁾		8,222	14	14	
Total derivatives		\$632,868	\$1,987	\$470	
	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⁾	Collateral Posting Threshold
	(dollars in millions)				
AA- or above	4	\$52,687	\$191	\$49	\$10 million or less
A+/A/A-	13	413,669	2,283	139	\$1 million or less
BBB+ or below	2	38,475	2	—	\$ —

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Subtotal	19	504,831	2,476	188
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

(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. Our last foreign-currency swaps matured in January 2014.

(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.

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For each counterparty, this amount includes derivatives with a positive fair value (recorded as derivative assets, (4) net), including the related accrued interest receivable/payable and trade/settle receivable or payable, when applicable.

Calculated as Total Exposure at Fair Value less both cash and non-cash collateral held as determined at the counterparty level. Does not include the fair value amount of non-cash collateral held that exceeds the associated net asset presented on the consolidated balance sheets. At September 30, 2014 and December 31, 2013, exposure is net of \$427 million and \$432 million, respectively, of non-cash collateral that had been posted to us. For cleared (5) and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of \$1.7 billion and \$0.6 billion as of September 30, 2014 and December 31, 2013, respectively. 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 derivatives, see “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged.”

Consists primarily of certain written options and certain credit derivatives. Written options do not present (6) 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. At September 30, 2014, total exposure at fair value includes exposure related to ACIS insurance contracts.

Over time, our exposure to individual derivative counterparties varies depending on changes in fair values, which are affected by changes in interest rates, yield curves, the implied volatility of interest rates, and the amount of derivatives held. See “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — 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 98% of our exposure at fair value for OTC interest-rate swap and option-based derivatives was collateralized at September 30, 2014 (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.

Four counterparties each accounted for greater than 10% and collectively accounted for 84% 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 September 30, 2014. Three of these counterparties, Toronto Dominion Bank, JP Morgan Chase Bank, and Barclays Bank PLC, were rated “A” or above and Royal Bank of Scotland was rated “BBB+” using the lower of S&P’s or Moody’s rating stated in terms of the S&P equivalent as of October 23, 2014.

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 a central clearing requirement. Our exposure to cleared and exchange-traded derivatives was \$302 million and \$382 million as of September 30, 2014 and December 31, 2013, respectively, which includes the consideration of cash collateral that we have posted for initial and variation margin. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. We post initial and variation margin in connection with our cleared and exchange-traded derivatives. The amount of 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.”

In the event an OTC derivative or cleared derivative counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and

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

The total exposure on our forward purchase and sale commitments for mortgages and mortgage-related securities, treated as derivatives for accounting purposes, was \$88 million and \$61 million at September 30, 2014 and December 31, 2013, 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.

Operational Risks

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We define operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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.

Under the direction of FHFA, we continue to make various multi-year investments to build the infrastructure for a future housing finance system, including the development of the common securitization platform and a single security. If any of these investments are not successful, we may not recover our investment. We face increased operational risk due to the magnitude and complexity of the new initiatives we are undertaking, including initiatives we are pursuing under the Conservatorship Scorecard. Certain of these investments and initiatives will result in changes to our systems that could also introduce increased operational risk. For more information, see "MD&A - RISK MANAGEMENT - Operational Risks" and "RISK FACTORS - Operational Risks" in our 2013 Annual Report.

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. For example, we are improving our out-of-region disaster recovery capabilities. In addition, we are conducting a multi-year project focused on simplifying our control structure and eliminating redundant control activities. In 2013, we modified our risk and control assessment framework to increase our emphasis on risk management. We are also conducting detailed operational control design reviews to identify ways to simplify our controls structure. We are improving our risk management capabilities by further enhancing our three lines-of-defense risk management framework. Our enhanced three-lines-of-defense risk management framework is designed to add clarity to roles and responsibilities, and to strengthen risk ownership in our business segments with corporate oversight and independent assessment. This framework includes:

- recognized ownership of the business processes, risks and controls by our three business segments;
- oversight by our independent compliance, risk and control functions; and
- independent assessment by our Internal Audit function.

We believe our enhanced three lines-of-defense risk management framework will improve our risk management activities. As part of this effort, we are re-organizing certain activities across the company. During our transition, we may experience elevated operational risks as we re-align roles and responsibilities across the company. We are actively managing this risk.

On September 23, 2014, Paige H. Wisdom, Executive Vice President and Chief Enterprise Risk Officer, informed us of her intent to leave the company. Ms. Wisdom will remain in her current role through December 31, 2014.

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2014. As of September 30, 2014, we had one material weakness related to conservatorship, which remained unremediated, causing us to conclude that our disclosure controls and procedures were not effective at a reasonable level of assurance. 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. For a discussion of uses and sources of cash, see "MD&A — LIQUIDITY AND CAPITAL RESOURCES" in our 2013 Annual Report.

We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities.

However, the costs and availability of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs and any future downgrades in our credit ratings or the credit ratings of the U.S. government. For more information, see "Other Debt Securities — Credit Ratings."

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. For a discussion of our liquidity management practices and policies and related FHFA guidance, see "MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Liquidity Management" in our 2013 Annual Report.

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. During the nine months ended September 30, 2014, the majority of the funds in our liquidity and contingency operating portfolio was deposited with the Federal Reserve Bank of New York, or was invested in U.S. Treasury securities and short-term assets with a rating of at least A-1/P-1, or assets which were issued by a counterparty with that rating. In the event of a

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downgrade of a position or counterparty, as applicable, below minimum rating requirements, we make an assessment whether to exit the existing position or continue to do business with the counterparty.

Our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to 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” in our 2013 Annual Report.

Other Debt Securities

During the nine months ended September 30, 2014, we had sufficient access to the debt markets due largely to support from the U.S. government. Our effective short-term debt was 40% of outstanding other debt at September 30, 2014 as compared to 43% at December 31, 2013. Effective short-term debt is the aggregate of short-term debt and the current portion of long-term debt (the portion due within one year). The categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt. We rely significantly on our ability to issue debt on an on-going basis to refinance our effective short-term debt.

Our debt cap under the Purchase Agreement is \$663.0 billion in 2014 and will decline to \$563.6 billion on January 1, 2015. As of September 30, 2014, our aggregate indebtedness was \$439.5 billion. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our indebtedness on this basis monthly under the caption “Other Debt Activities — Total Debt Outstanding” in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com 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 the three and nine months ended September 30, 2014 and 2013. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including: (a) to help support the liquidity of our other debt securities; (b) to manage the composition of liabilities funding our assets; or (c) for economic reasons.

Table 49 — Activity in Other Debt

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(dollars in millions)				
Beginning balance	\$449,232	\$525,785	\$511,345	\$552,472	
Issued during the period:					
Short-term:					
Amount	\$46,738	\$69,120	\$140,914	\$230,610	
Weighted-average effective interest rate	0.12	% 0.10	% 0.11	% 0.12	%
Long-term:					
Amount	\$22,730	\$23,380	\$62,024	\$80,827	
Weighted-average effective interest rate	1.27	% 0.92	% 1.21	% 0.99	%
Total issued:					
Amount	\$69,468	\$92,500	\$202,938	\$311,437	
Weighted-average effective interest rate	0.49	% 0.31	% 0.44	% 0.35	%
Paid off during the period: ⁽¹⁾					
Short-term:					
Amount	\$(45,208)	\$(69,074)	\$(170,824)	\$(212,464))
Weighted-average effective interest rate	0.11	% 0.12	% 0.12	% 0.13	%
Long-term:					
Amount	\$(33,958)	\$(28,864)	\$(103,925)	\$(131,098))
Weighted-average effective interest rate	1.83	% 2.19	% 1.73	% 1.76	%
Total paid off:					

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Amount	\$ (79,166)	\$ (97,938)	\$ (274,749)	\$ (343,562)
Weighted-average effective interest rate	0.85	%	0.73	%	0.73	%	0.75	%
Ending balance	\$439,534		\$520,347		\$439,534		\$520,347	

Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, (1) 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.

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 October 23, 2014.

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Freddie Mac

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Table 50 — 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
Outlook	Stable	Stable	Stable

(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.

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

For information about factors that could lead to future ratings actions, and the potential impact of a downgrade in our credit ratings, see “RISK FACTORS — Competitive and Market Risks — Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business” in our 2013 Annual Report.

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

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

Excluding amounts related to our consolidated VIEs, we held \$42.9 billion and \$77.1 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at September 30, 2014 and December 31, 2013, 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 September 30, 2014, our non-mortgage-related securities consisted of U.S. Treasury securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets. 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 (excluding certain structured agency securities collateralized by non-agency mortgage-related securities). While our holdings of certain structured agency securities collateralized by non-agency mortgage-related securities, 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 “EXECUTIVE SUMMARY — 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 \$4.9 billion to \$16.2 billion during the nine months ended September 30, 2014, as compared to an increase of \$1.0 billion to \$9.5 billion during the nine months ended September 30, 2013. Cash flows provided by operating activities during the nine months ended September 30, 2014 and 2013 were \$11.3 billion and \$8.3 billion, respectively, primarily driven by cash proceeds from net interest income. Cash flows provided by investing activities during the nine months ended September 30, 2014 and 2013 were \$182.4 billion and \$322.1 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 the nine months ended September 30, 2014 and 2013 were \$188.8 billion and \$329.3 billion, respectively, largely attributable to funds used to repay debt securities of consolidated trusts held by third parties and other debt. Beginning in the first quarter of 2014, we reclassified net discounts paid on retirements of other debt and net premiums received from issuance of debt securities of consolidated trusts and other debt from cash flows from operating activities to cash

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flows from financing activities on our consolidated statements of cash flows. This reclassification resulted in a decrease of \$1.1 billion to net cash provided by operating activities and an increase of \$1.1 billion to net cash used in financing activities for the nine months ended September 30, 2013.

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

At September 30, 2014, 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. For more information, see “RISK FACTORS — Conservatorship and Related Matters — We may request additional draws under the Purchase Agreement in future periods” in our 2013 Annual Report.

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” in our 2013 Annual Report for additional information on mandatory receivership.

Based on our Net Worth Amount at September 30, 2014 and the 2014 Capital Reserve Amount of \$2.4 billion, our dividend obligation to Treasury in December 2014 will be \$2.8 billion. We paid dividends of \$16.8 billion in cash on the senior preferred stock during the nine months ended September 30, 2014, based on our Net Worth Amounts at June 30, 2014, March 31, 2014, and December 31, 2013. Through September 30, 2014, we have paid aggregate cash dividends to Treasury of \$88.2 billion, an amount that is \$16.8 billion more than our aggregate draws received under the Purchase Agreement.

At September 30, 2014, our aggregate funding received from Treasury under the Purchase Agreement was \$71.3 billion. This aggregate funding amount does not include the initial \$1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. In addition, under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference. Accordingly, while we have paid aggregate cash dividends to Treasury of \$88.2 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” in our 2013 Annual Report.

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.

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, the valuation techniques and processes used to measure fair value, and controls over fair value measurement, see “MD&A — FAIR VALUE BALANCE SHEETS AND ANALYSIS” in our 2013 Annual Report and “NOTE 16: FAIR VALUE DISCLOSURES.”

Level 3 Recurring Fair Value Measurements

At September 30, 2014 and December 31, 2013, we measured and recorded 29% and 31%, respectively, of total assets carried at fair value on a recurring basis using unobservable inputs (Level 3). At September 30, 2014 and December 31, 2013, we measured and recorded less than 1% and 11%, respectively, 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

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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 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs” for the Level 3 reconciliation.

Consideration of Credit Risk in Our Valuation

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. For more information, see “MD&A — FAIR VALUE BALANCE SHEETS AND ANALYSIS — Consideration of Credit Risk in Our Valuation” in our 2013 Annual Report.

For a discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see “Table 16 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets” and “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk.”

See “RISK MANAGEMENT — Credit Risk — Institutional Credit Risk — Derivative Counterparties” in this Form 10-Q and our 2013 Annual Report for a discussion of our derivative counterparty credit risk.

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 September 30, 2014 and December 31, 2013. 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,” “RISK FACTORS” and “RISK MANAGEMENT — Operational Risks” in our 2013 Annual Report for information concerning the risks associated with these models.

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. In addition, the 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 more information, see “MD&A — FAIR VALUE BALANCE SHEETS AND ANALYSIS — Consolidated Fair Value Balance Sheets Analysis — Limitations” in our 2013 Annual Report.

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Table 51 — Consolidated Fair Value Balance Sheets

	September 30, 2014		December 31, 2013	
	Carrying Amount ⁽¹⁾ (in billions)	Fair Value	Carrying Amount ⁽¹⁾	Fair Value
Assets				
Cash and cash equivalents	\$16.2	\$16.2	\$11.3	\$11.3
Restricted cash and cash equivalents	6.3	6.3	12.2	12.2
Federal funds sold and securities purchased under agreements to resell	30.0	30.0	62.4	62.4
Investments in securities:				
Available-for-sale, at fair value	112.8	112.8	128.9	128.9
Trading, at fair value	30.4	30.4	23.4	23.4
Total investments in securities	143.2	143.2	152.3	152.3
Mortgage loans:				
Mortgage loans held by consolidated trusts	1,549.5	1,557.1	1,529.9	1,507.7
Unsecuritized mortgage loans	141.4	138.4	154.9	138.2
Total mortgage loans	1,690.9	1,695.5	1,684.8	1,645.9
Derivative assets, net	0.9	0.9	1.1	1.1
Other assets	35.3	35.2	42.0	42.0
Total assets	\$1,922.8	\$1,927.3	\$1,966.1	\$1,927.2
Liabilities				
Debt, net:				
Debt securities of consolidated trusts held by third parties	\$1,467.8	\$1,496.9	\$1,434.0	\$1,436.9
Other debt	435.7	442.8	506.8	512.8
Total debt, net	1,903.5	1,939.7	1,940.8	1,949.7
Derivative liabilities, net	1.9	1.9	0.2	0.2
Other liabilities	12.2	20.3	12.2	18.5
Total liabilities	1,917.6	1,961.9	1,953.2	1,968.4
Net assets				
Senior preferred stock	72.3	72.3	72.3	72.3
Preferred stock	14.1	2.1	14.1	4.4
Common stock	(81.2	) (109.0	) (73.5	) (117.9
Total net assets	5.2	(34.6	) 12.9	(41.2
Total liabilities and net assets	\$1,922.8	\$1,927.3	\$1,966.1	\$1,927.2

(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 the nine months ended September 30, 2014.

Table 52 — Summary of Change in the Fair Value of Net Assets

	Nine Months Ended September 30, 2014 (in billions)
Beginning balance	\$(41.2
Changes in fair value of net assets, before capital transactions	23.4
Subtotal - balance before 2014 capital transactions	(17.8
Capital transactions:	

Dividends and share issuances, net ⁽¹⁾	(16.8)
Ending balance	\$(34.6)

(1) We did not receive funds from Treasury during the nine months ended September 30, 2014 under the Purchase Agreement.

During the nine months ended September 30, 2014, the fair value of net assets, before capital transactions, increased by \$23.4 billion, primarily due to: (a) an increase in the fair value of our single-family loans as the result of continued improvement in the credit environment; (b) a benefit from settlements related to lawsuits regarding our investments in certain non-agency single-family mortgage-related securities; and (c) spread tightening and higher estimated core spread income on our mortgage-related securities. See “Table 51 — Consolidated Fair Value Balance Sheets” for additional details.

Table of Contents**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.

We guarantee the payment of principal and interest on non-consolidated Freddie Mac guaranteed mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Our maximum potential off-balance sheet exposure to credit losses relating to these guarantees is primarily represented by the UPB of the underlying loans and securities, which was \$107.2 billion and \$101.0 billion at September 30, 2014 and December 31, 2013, respectively. We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans. These non-derivative commitments totaled \$281.2 billion and \$289.7 billion in notional value at September 30, 2014 and December 31, 2013, 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 \$9.8 billion and \$10.0 billion at September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013, there were no liquidity guarantee advances outstanding.

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets and non-mortgage assets, and include LIHTC partnerships and certain Other Guarantee Transactions. 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" in our 2013 Annual Report for additional information related to our variable interests in these VIEs. For further information on our off-balance sheet arrangements, see "MD&A — Off-Balance Sheet Arrangements" in our 2013 Annual Report and "NOTE 14: FINANCIAL GUARANTEES" in this Form 10-Q.

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 "MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES" in our 2013 Annual Report and "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in this Form 10-Q and our 2013 Annual Report.

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FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for our single-family, multifamily, and investment businesses, our loan workout initiatives and other efforts to assist the housing market, 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 our 2013 Annual Report, and:

- the actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to further support the housing recovery or to implement FHFA’s 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 any changes to its policy of maintaining sizable holdings of 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 (e.g., against cyber attacks);
- 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;

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-Q, our Forms 10-Q for the quarters ended March 31, 2014 and June 30, 2014, and our 2013 Annual Report, including in the “MD&A” sections.

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

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

Under an agreement with FHFA, we have committed to provide certain disclosures, including the interest-rate risk and credit risk sensitivity disclosures discussed below. FHFA has suspended certain other disclosure commitments under the agreement. For more information, see "MD&A — RISK MANAGEMENT AND DISCLOSURE COMMITMENTS" in our 2013 Annual Report.

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."

LEGISLATIVE AND REGULATORY MATTERS

Legislation Related to Freddie Mac and its Future Status

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

On September 16, 2014, the "Preserving Multifamily Housing Act of 2014" was introduced in the House of Representatives. This bill would prohibit FHFA from acting in its capacity as regulator, conservator or receiver to reduce or limit the volume or scope of Freddie Mac or Fannie Mae's multifamily businesses unless the FHFA Director: (a) determines there is substantial evidence that such action is necessary to ensure the safety and soundness of an enterprise; (b) publishes the determination in the Federal Register; and (c) submits written notification of the determination to Congress.

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

For more information, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — Legislation Related to Freddie Mac and its Future Status" and "RISK FACTORS — Conservatorship and Related Matters — The future status and role of Freddie Mac are uncertain" in our 2013 Annual Report, as well as "MD&A — LEGISLATIVE AND REGULATORY MATTERS — Legislation Related to Freddie Mac and its Future Status" in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014.

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.

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

Regulation of Swaps: On September 3, 2014, a group of federal regulatory agencies, including FHFA, jointly re-proposed regulations that would establish, among other items, margin and capital requirements applicable to non-cleared swaps transacted by swap dealers, major swap participants, and certain other defined entities. While an increasing number of Freddie Mac's interest rate swap transactions are cleared, the company continues to execute a significant number of non-cleared swap transactions. If these regulations are adopted as proposed, the costs to Freddie Mac and other market participants of transacting in non-cleared over-the-counter swaps would increase in the future.

Risk Retention: In October 2014, six agencies, including FHFA, finalized a joint proposal concerning credit risk retention. The final rule, which implements the credit risk retention requirements of the Dodd-Frank Act, generally requires 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 provides an exemption from this requirement for asset-backed securities collateralized exclusively by qualified residential mortgages (or “QRMs”), and defines a QRM by reference to the definition of “qualified mortgage” under the Truth in Lending Act. Freddie Mac’s fully guaranteed securitizations generally will satisfy the risk retention requirements for so long as we are in conservatorship or receivership and receiving federal financial support. This exemption will not apply to our securitization structures that are not fully guaranteed, although other exemptions in the rule may apply to such structures. The requirements of the final risk retention rule with respect to residential mortgage securitizations will become effective one year (two years, in the case of multifamily securitizations) after the final rule is published in the Federal Register.

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” in our 2013 Annual Report.

Liquidity Coverage Ratio for Financial Institutions

In September 2014, federal bank regulators released a final rule establishing a liquidity coverage ratio standard, intended to strengthen the liquidity risk management of large banks and savings associations. The final rule is generally consistent with the liquidity standards agreed to by the Basel Committee on Banking Supervision in January 2013. The final rule, which begins to take effect January 1, 2015, requires large and internationally active banking organizations to maintain an amount of High Quality Liquid Assets (HQLA) to cover at least 100% of the company’s net cash outflow for 30 days. Other banking organizations with \$50 billion or more in assets must meet a modified liquidity coverage ratio standard. Under the final rule, the most liquid assets, such as U.S. government guaranteed securities, can be included in HQLA without limit. In contrast, Freddie Mac and Fannie Mae securities can be included in HQLA, subject to limits and a haircut, while certain publicly traded investment-grade corporate bonds and equities are subject to more stringent limits. The treatment of Freddie Mac securities in the final rule, relative to other securities, could affect demand for our securities by financial institutions.

FHFA Request for Input on Proposed Single Security Structure

On August 12, 2014, FHFA published a request for input on the proposed structure for a single security that would be issued and guaranteed by Freddie Mac or Fannie Mae. FHFA requested comment on all aspects of the proposed structure. Comments were due by October 13, 2014. Under FHFA’s proposal, the single security would leverage the enterprises’ existing security structures, and would encompass many of the pooling features of the current Fannie Mae mortgage backed security and most of the disclosure framework of the current Freddie Mac PC. FHFA stated that its goal for the proposed single security structure is for legacy Freddie Mac PCs and legacy Fannie Mae mortgage backed securities to be fungible with the single security for purposes of fulfilling TBA contracts. FHFA also stated that the development of the single security will be a multi-year effort, and that FHFA, Freddie Mac and Fannie Mae will continue to seek input and work with stakeholders throughout the process to achieve the goal of improving overall secondary mortgage market liquidity while mitigating any risk of market disruption.

Affordable Housing Goals and Results for 2013

In October 2014, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2013, and determined that we achieved two of our five single-family affordable housing goals and both multifamily goals. Our performance on the goals, as determined by FHFA, is set forth below.

Table 53 — Affordable Housing Goals and Results for 2013

	Goals for 2013	Market Level for 2013 ⁽¹⁾	Results for 2013	
Single-family purchase money goals (benchmark levels):				
Low-income	23	% 24.0	% 21.8	%
Very low-income	7	% 6.3	% 5.5	%
Low-income areas ⁽²⁾	21	% 22.1	% 20.0	%
Low-income areas subgoal	11	% 14.2	% 12.3	%
	20	% 24.3	% 24.1	%

Single-family refinance low-income goal
(benchmark level)

Multifamily low-income goal (in units)	215,000	N/A	254,628
Multifamily low-income subgoal (in units)	50,000	N/A	56,752

(1) Determined by FHFA based on its analysis of market data for 2013.

(2) 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%.

The Director has requested that we submit a framework for meeting the 2015 goals. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Goals" in our 2013 Annual Report.

Affordable Housing Goals for 2015 to 2017

On August 29, 2014, FHFA issued a proposed rule that would establish housing goals for Freddie Mac and Fannie Mae for 2015 through 2017. FHFA requested comment on all aspects of the proposed rule. Comments were due by October 28, 2014. Under FHFA's proposal: (a) the benchmark levels for two of our single-family goals could increase; (b) both of our multifamily goals would increase; and (c) FHFA would establish a new subgoal related to small multifamily properties affordable to low-income families. We cannot predict the content of the final rule, or the impact the final rule will have on our

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business or operations. FHFA's current housing goals rule is effective through the end of 2014, and is described in "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Goals" in our 2013 Annual Report.

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 regulatory 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.

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. Effective January 1, 2014, we implemented the asset classification provisions of AB 2012-02 and we provide FHFA with this information on a quarterly basis.

Among other requirements, the 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 (where our servicers are actively working with the borrower on alternatives to allow them to stay in their homes and our data supports that the loans are not yet uncollectible). The Advisory Bulletin also requires us to charge off the portion of the loan classified as a "loss." Currently, we deem a loan uncollectible at the time of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale).

During the third quarter of 2014, we resolved the remaining implementation issues related to our adoption of the Advisory Bulletin. As a result, we will not classify loans as a "loss" where our servicers are actively working with the borrower on alternatives to allow them to stay in their home (even if the loan is greater than 180 days delinquent) and our recent experience indicates that a significant percentage of our modifications are initiated after loans become 180 days delinquent.

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 will be reduced by the amount charged off. However, we expect the credit losses we realize over time on our loan portfolio will be the same. We do not expect that our adoption of the Advisory Bulletin will have a material impact on our financial position or results of operations. FHFA Announcements Concerning Representation and Warranty Framework and High LTV Mortgage Loans On October 20, 2014, FHFA announced an agreement in principle concerning changes to Freddie Mac's and Fannie Mae's (collectively, the "Enterprises") representation and warranty frameworks. FHFA is also working with the Enterprises to develop responsible guidelines for mortgages with loan-to-value ratios between 95% and 97% to serve a targeted segment of creditworthy borrowers. Details about these matters are expected to be provided in coming weeks.

The changes to the representation and warranty frameworks involve clarifying and defining the life-of-loan exclusions. These exclusions are designed to protect the Enterprises from instances of fraud or other significant noncompliance, and, as a result, they allow the Enterprises to require lenders to repurchase loans at any point during the term of the loan. The changes involve:

More clearly defining the life-of-loan exclusions involving: (a) misrepresentations, misstatements and omissions; (b) data inaccuracies; (c) charter compliance issues; (d) first-lien priority and title matters; (e) legal compliance violations; and (f) unacceptable mortgage products; and

• For loans that have already earned repurchase relief, clarifying that only life-of-loan exclusions can trigger a repurchase under the frameworks.

FHFA stated that the refined definitions for the misrepresentations and data inaccuracies categories will include a minimum number of loans that must be identified with misrepresentations or data inaccuracies to trigger the

life-of-loan exclusion. FHFA also stated that the misrepresentation and data inaccuracy categories will include a “significance” test. In order to require repurchase of a loan under these two categories, the “significance” test would require the Enterprises to determine that the loan would have been ineligible for purchase initially if the loan information had been accurately reported.

FHFA also indicated that additional changes to the Enterprises’ representation and warranty frameworks will be announced in the near future. We discuss the framework in the “RISK MANAGEMENT — Credit Risk — Mortgage Credit Risk — Single-Family Mortgage Credit Risk” and “— Institutional Credit Risk — Single-family Mortgage Seller/Serviceers” sections of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest-Rate Risk and Other Market Risks

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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 from: (a) 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 the contractual obligation. For more information on credit risk, see "RISK MANAGEMENT — Credit Risk." See "MD&A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks" in our 2013 Annual Report for a discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

PMVS and Duration Gap

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

PMVS is an estimate of the change in the market value of our 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).

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.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions. 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 effect of certain other market risks, such as changes in volatility and basis risk. The effect of these other market risks can be significant. For a further discussion of limitations, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks — Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk — Limitations of Market Risk Measures" in our 2013 Annual Report.

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 three and nine months ended September 30, 2014 and 2013. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear.

Our PMVS-L (50 basis points) exposure at September 30, 2014 was \$70 million, which decreased compared to December 31, 2013 primarily due to a decrease in our duration exposure. On an average basis for the three and nine months ended September 30, 2014, our PMVS-L (50 basis points) was \$35 million and \$57 million, respectively, primarily resulting from our duration exposure.

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Table 54 — PMVS and Duration Gap Results

				PMVS-YC 25 bps (in millions)	PMVS-L 50 bps	100 bps
Assuming shifts of the LIBOR yield curve:						
September 30, 2014				\$13	\$70	\$161
December 31, 2013				\$—	\$176	\$368
	Three Months Ended September 30, 2014			2013		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps (dollars in millions)	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps (dollars in millions)
Average	—	\$18	\$35	(0.1)	\$24	\$225
Minimum	(0.4)	\$3	\$—	(1.2)	\$1	\$106
Maximum	0.6	\$36	\$112	1.2	\$73	\$452
Standard deviation	0.2	\$7	\$28	0.5	\$21	\$65
	Nine Months Ended September 30, 2014			2013		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps (dollars in millions)	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps (dollars in millions)
Average	(0.1)	\$17	\$57	0.2	\$22	\$283
Minimum	(2.4)	\$—	\$—	(1.2)	\$—	\$106
Maximum	0.7	\$65	\$509	2.0	\$73	\$673
Standard deviation	0.5	\$14	\$85	0.5	\$16	\$94

Derivatives have historically enabled us to reduce our interest-rate risk exposure, which could have been higher without the use of derivatives. The table below shows that the PMVS-L risk levels for the periods presented would have been higher if we had not used derivatives. The derivative impact on our PMVS-L (50 basis points) was \$(3.0) billion at September 30, 2014, an increase of \$1.0 billion from December 31, 2013.

Table 55 — Derivative Impact on PMVS-L (50 bps)

	Before Derivatives (in millions)	After Derivatives	Effect of Derivatives
At:			
September 30, 2014	\$3,023	\$70	\$(2,953)
December 31, 2013	\$2,166	\$176	\$(1,990)

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).

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

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management of the company, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures.

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2014. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2014, 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

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communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure. 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. We consider this situation to be a material weakness in our internal control over financial reporting. For more information, see "CONTROLS AND PROCEDURES — Management's Report on Internal Control Over Financial Reporting" in our 2013 Annual Report.

Changes in Internal Control Over Financial Reporting During the Quarter Ended September 30, 2014

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 and concluded that the following matter has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We are conducting a multi-year project focused on simplifying our control structure and eliminating redundant control activities. In 2013, we modified our risk and control assessment framework to increase our emphasis on risk management. We are also conducting detailed operational control design reviews to identify ways to simplify our controls structure. We are improving our risk management capabilities by further enhancing our three lines-of-defense risk management framework. Our enhanced three-lines-of-defense risk management framework is designed to add clarity to the roles and responsibilities and to strengthen risk ownership in our business segments with corporate oversight and independent assessment. For more information, see "RISK MANAGEMENT — Operational Risk."

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

As described above under "Evaluation of Disclosure Controls and Procedures," we have one material weakness in internal control over financial reporting as of September 30, 2014 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 Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the Conservator.

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

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

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

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

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

In view of our mitigating actions related to this material weakness, we believe that our consolidated financial statements for the quarter ended September 30, 2014 have been prepared in conformity with GAAP.

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ITEM 1. FINANCIAL STATEMENTS

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Freddie Mac

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions, except share-related amounts)			
Interest income				
Mortgage loans:				
Held by consolidated trusts	\$ 14,148	\$ 14,197	\$ 42,881	\$ 42,798
Unsecuritized	1,643	1,872	4,965	5,898
Total mortgage loans	15,791	16,069	47,846	48,696
Investments in securities	1,423	1,871	4,457	6,047
Other	8	7	19	37
Total interest income	17,222	17,947	52,322	54,780
Interest expense				
Debt securities of consolidated trusts	(11,802)	(11,523)	(36,150)	(35,262)
Other debt:				
Short-term debt	(35)	(45)	(110)	(134)
Long-term debt	(1,647)	(1,996)	(5,156)	(6,339)
Total interest expense	(13,484)	(13,564)	(41,416)	(41,735)
Expense related to derivatives	(75)	(107)	(230)	(360)
Net interest income	3,663	4,276	10,676	12,685
(Provision) benefit for credit losses	(574)	1,138	(41)	2,264
Net interest income after (provision) benefit for credit losses	3,089	5,414	10,635	14,949
Non-interest income (loss)				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(132)	135	(308)	197
Gains (losses) on retirement of other debt	(8)	143	—	136
Derivative gains (losses)	(617)	(74)	(4,894)	1,663
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(132)	(130)	(641)	(169)
Portion of other-than-temporary impairment recognized in AOCI	(34)	4	(46)	(44)
Net impairment of available-for-sale securities recognized in earnings	(166)	(126)	(687)	(213)
Other gains (losses) on investment securities recognized in earnings	(109)	620	1,029	(153)
Other income (loss)	1,796	991	7,329	1,139
Non-interest income (loss)	764	1,689	2,469	2,769
Non-interest expense				
Salaries and employee benefits	(231)	(207)	(687)	(626)
Professional services	(128)	(144)	(392)	(387)
Occupancy expense	(16)	(14)	(43)	(41)
Other administrative expenses	(97)	(90)	(271)	(277)
Total administrative expenses	(472)	(455)	(1,393)	(1,331)
Real estate owned operations (expense) income	(103)	79	(112)	183
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(198)	(150)	(563)	(366)
Other expenses	(43)	(51)	(199)	(185)
Non-interest expense	(816)	(577)	(2,267)	(1,699)
Income before income tax (expense) benefit	3,037	6,526	10,837	16,019

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Income tax (expense) benefit	(956)	23,960	(3,374)	24,036
Net income	2,081	30,486	7,463	40,055
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	656	(127)	1,562	1,436
Changes in unrealized gains (losses) related to cash flow hedge relationships	50	76	151	250
Changes in defined benefit plans	(1)	2	(1)	24
Total other comprehensive income (loss), net of taxes and reclassification adjustments	705	(49)	1,712	1,710
Comprehensive income	\$2,786	\$30,437	\$9,175	\$41,765
Net income	\$2,081	\$30,486	\$7,463	\$40,055
Undistributed net worth sweep and senior preferred stock dividends	(2,786)	(30,436)	(9,175)	(41,764)
Net income (loss) attributable to common stockholders	\$(705)	\$50	\$(1,712)	\$(1,709)
Net income (loss) per common share — basic and diluted	\$(0.22)	\$0.02	\$(0.53)	\$(0.53)
Weighted average common shares outstanding (in millions) — basic and diluted	3,236	3,238	3,236	3,238

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

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FREDDIE MAC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2014	December 31, 2013
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes \$1 and \$1, respectively, related to our consolidated VIEs)	\$16,191	\$11,281
Restricted cash and cash equivalents (includes \$6,177 and \$12,193, respectively, related to our consolidated VIEs)	6,264	12,265
Federal funds sold and securities purchased under agreements to resell (includes \$12,375 and \$3,150, respectively, related to our consolidated VIEs)	29,956	62,383
Investments in securities:		
Available-for-sale, at fair value (includes \$0 and \$70, respectively, pledged as collateral that may be repledged)	112,777	128,919
Trading, at fair value (includes \$1,393 and \$365, respectively, pledged as collateral that may be repledged)	30,434	23,404
Total investments in securities	143,211	152,323
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of \$3,101 and \$3,006, respectively)	1,549,533	1,529,905
Unsecuritized (net of allowances for loan losses of \$19,473 and \$21,612, respectively)	133,719	146,158
Total held-for-investment mortgage loans, net	1,683,252	1,676,063
Held-for-sale, at lower-of-cost-or-fair-value (includes \$7,719 and \$8,727 at fair value, respectively)	7,719	8,727
Total mortgage loans, net	1,690,971	1,684,790
Accrued interest receivable (includes \$5,121 and \$5,111, respectively, related to our consolidated VIEs)	6,039	6,150
Derivative assets, net	897	1,063
Real estate owned, net (includes \$41 and \$49, respectively, related to our consolidated VIEs)	2,911	4,551
Deferred tax assets, net	18,481	22,716
Other assets (Note 19) (includes \$1,835 and \$2,172, respectively, related to our consolidated VIEs)	7,863	8,539
Total assets	\$1,922,784	\$1,966,061
Liabilities and equity		
Liabilities		
Accrued interest payable (includes \$4,716 and \$4,702, respectively, related to our consolidated VIEs)	\$6,217	\$6,803
Debt, net:		
Debt securities of consolidated trusts held by third parties (includes \$45 and \$59 at fair value, respectively)	1,467,845	1,433,984
Other debt (includes \$4,988 and \$2,683 at fair value, respectively)	435,706	506,767
Total debt, net	1,903,551	1,940,751
Derivative liabilities, net	1,930	180

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Other liabilities (Note 19) (includes \$3 and \$6, respectively, related to our consolidated VIEs)	5,900	5,492
Total liabilities	1,917,598	1,953,226
Commitments and contingencies (Notes 9, 14, and 17)		
Equity		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, \$0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,040,391 shares and 650,039,533 shares outstanding, respectively	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(79,080)	(69,719)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes \$708 and (\$1,100), respectively, related to net unrealized gains (losses) on securities for which other-than-temporary impairment has been recognized in earnings)	2,524	962
Cash flow hedge relationships	(849)	(1,000)
Defined benefit plans	31	32
Total AOCI, net of taxes	1,706	(6)
Treasury stock, at cost, 75,823,495 shares and 75,824,353 shares, respectively	(3,885)	(3,885)
Total equity (See NOTE 11: STOCKHOLDERS' EQUITY for information on our dividend obligation to Treasury)	5,186	12,835
Total liabilities and equity	\$1,922,784	\$1,966,061

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Shares Outstanding Senior Preferred Stock (in millions)	Preferred Stock (in millions)	Common Stock (in millions)	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
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	—	—	—	—	—	—	—	40,055	—	—	40,055
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	1,710	—	1,710
Comprehensive income	—	—	—	—	—	—	—	40,055	1,710	—	41,765
Common stock issuances	—	—	—	—	—	—	(1)	—	—	—	(1)
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(17,155)	—	—	(17,155)
Ending balance at September 30, 2013	1	464	650	\$ 72,336	\$ 14,109	\$ —	\$ —	\$ (47,896)	\$(1,228)	\$(3,885)	\$33,436
Balance as of December 31, 2013	1	464	650	\$ 72,336	\$ 14,109	\$ —	\$ —	\$ (69,719)	\$(6)	\$(3,885)	\$12,835
Comprehensive income:											
Net income	—	—	—	—	—	—	—	7,463	—	—	7,463
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	1,712	—	1,712
Comprehensive income	—	—	—	—	—	—	—	7,463	1,712	—	9,175
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(16,824)	—	—	(16,824)
Ending balance at September 30, 2014	1	464	650	\$ 72,336	\$ 14,109	\$ —	\$ —	\$ (79,080)	\$1,706	\$(3,885)	\$5,186

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September	
	30, 2014	2013
	2014	2013
	(in millions)	
Cash flows from operating activities		
Net income	\$7,463	\$40,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Derivative losses (gains)	2,910	(4,408)
Asset related amortization — premiums, discounts, and basis adjustments	2,454	3,939
Debt related amortization — premiums and discounts on certain debt securities and basis adjustments	(3,799)	) (5,638)
Losses (gains) on extinguishment of debt securities of consolidated trusts and other debt	308	(333)
Provision (benefit) for credit losses	41	(2,264)
(Gains) losses on investment activity	(725)	) 806
Deferred income tax expense (benefit)	3,313	(24,041)
Purchases of held-for-sale mortgage loans	(11,875)	) (17,695)
Sales of mortgage loans acquired as held-for-sale	13,350	20,866
Repayments of mortgage loans acquired as held-for-sale	60	147
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(723)	) (974)
Change in:		
Accrued interest receivable	111	535
Accrued interest payable	(565)	) (1,149)
Income taxes receivable	(698)	) 5
Other, net	(311)	) (1,597)
Net cash provided by operating activities	11,314	8,254
Cash flows from investing activities		
Purchases of trading securities	(33,076)	) (48,608)
Proceeds from sales of trading securities	13,674	30,319
Proceeds from maturities of trading securities	13,490	5,558
Purchases of available-for-sale securities	(22,080)	) (6,363)
Proceeds from sales of available-for-sale securities	26,608	15,586
Proceeds from maturities of available-for-sale securities	15,742	27,348
Purchases of held-for-investment mortgage loans	(51,583)	) (66,848)
Repayments of mortgage loans acquired as held-for-investment	175,728	346,931
Proceeds from sales of mortgage loans acquired as held-for-investment	454	7
Decrease in restricted cash	6,001	8,837
Advances to lenders	(67)) —
Net proceeds from dispositions of real estate owned and other recoveries	6,357	8,231
Net decrease (increase) in federal funds sold and securities purchased under agreements to resell	32,427	(3,460)
Derivative premiums and terminations and swap collateral, net	(1,262)	) 4,545
Net cash provided by investing activities	182,413	322,083
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	93,823	87,874

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Repayments of debt securities of consolidated trusts held by third parties	(194,483) (367,911)
Proceeds from issuance of other debt	342,957	525,453	
Repayments of other debt	(414,285	) (557,573)
Payment of cash dividends on senior preferred stock	(16,824	) (17,155)
Payments of low-income housing tax credit partnerships notes payable	(5	) (6)
Net cash used in financing activities	(188,817	) (329,318)
Net increase in cash and cash equivalents	4,910	1,019	
Cash and cash equivalents at beginning of period	11,281	8,513	
Cash and cash equivalents at end of period	\$16,191	\$9,532	
Supplemental cash flow information			
Cash paid for:			
Debt interest	\$46,697	\$50,519	
Net cash settlement on interest rate swaps	1,897	2,775	
Income taxes	760	—	
Non-cash investing and financing activities:			
Underlying mortgage loans related to guarantor swap transactions	137,071	289,416	
Debt securities of consolidated trusts held by third parties established for guarantor swap transactions	137,071	289,416	
Net increase (decrease) in investment securities and debt securities of consolidated trusts held by third parties from the deconsolidation and/or consolidation of variable interest entities	5	(2,180)
Investment securities received (transferred) as consideration for the issuance (extinguishment) of debt securities of consolidated trusts	1,184	—	
Transfers from held-for-investment mortgage loans to held-for-sale mortgage loans	864	17	
Transfers from held-for-sale mortgage loans to held-for-investment mortgage loans	231	—	

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 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 are regulated by FHFA, the SEC, HUD, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2013, or our 2013 Annual Report.

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” in our 2013 Annual Report 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 our objectives, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Business Objectives” in our 2013 Annual Report.

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 unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2013 Annual Report. 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 financial statement information that is normally included in annual financial statements prepared in conformity with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. Certain amounts in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair presentation of our unaudited consolidated financial statements. Beginning in the first quarter of 2014, we reclassified net discounts paid on retirements of other debt and net premiums received from issuance of debt securities of consolidated trusts and other debt from cash flows from

operating activities to cash flows from financing activities on our consolidated statements of cash flows. This reclassification resulted in a decrease of \$1.1 billion to net cash provided by operating activities and an increase of \$1.1 billion to net cash used in financing activities for the nine months ended September 30, 2013.

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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.

Earnings Per Common Share

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

Because we have issued participating securities, we use the "two-class" method of computing earnings per common share. Basic earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement. This warrant is included since it is unconditionally exercisable by the holder at a minimal cost. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" in our 2013 Annual Report 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 weighted average shares related to stock options if the average market price during the period exceeds the exercise price. During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share" in our 2013 Annual Report for further discussion of our significant accounting policies regarding our calculation of earnings per common share and "NOTE 11: STOCKHOLDERS' EQUITY — Stock-Based Compensation" in this Form 10-Q for additional information on our earnings-per-share calculation.

Recently Adopted Accounting Guidance

Accounting for Investments in Qualified Affordable Housing Projects

In the first quarter of 2014, we adopted an amendment to the accounting guidance related to accounting for investments in qualified affordable housing projects. This amendment permitted entities to elect to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions were met. The adoption of this amendment did not have a material impact on our consolidated financial statements.

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

Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

In November 2014, the FASB issued an amendment to the accounting guidance on derivatives and hedging related to evaluating host contracts in hybrid financial instruments that are issued in the form of a share. This accounting guidance clarifies that an entity should determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of

relevant facts and circumstances. This accounting guidance is effective for interim and annual periods beginning after December 15, 2015. We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

In August 2014, the FASB issued an amendment to the accounting guidance for receivables related to certain government-guaranteed mortgage loans. This accounting guidance requires that a mortgage loan be de-recognized and a separate receivable be recognized upon foreclosure if certain conditions are met. If those conditions are met and such a receivable is recognized, the receivable should be measured based on the amount of principal and interest related to the loan expected to be recovered from the guarantor. This accounting guidance is effective for interim and annual periods beginning after December 15, 2014. We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

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Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued an amendment to the accounting guidance for transfers and servicing related to repurchase agreements and other similar transactions. This accounting guidance requires repurchase-to-maturity transactions to be accounted for as secured borrowings and requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. This accounting guidance is effective for interim and annual periods beginning after December 15, 2014. We are evaluating the impact that the adoption of this amendment will have on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued an amendment to the accounting guidance related to the recognition of revenue. This accounting guidance requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This accounting guidance is effective for interim and annual periods beginning after December 15, 2016. We are evaluating the impact that the adoption of this amendment will have 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. 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

Business Objectives

We continue to operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters 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.

Our current business objectives reflect direction we have received from the Conservator (including the 2014 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. 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 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 May 13, 2014, FHFA issued its 2014 Strategic Plan and the 2014 Conservatorship Scorecard. The 2014 Strategic Plan provides an updated vision for FHFA's implementation of its obligations as conservator of Freddie Mac and Fannie Mae (the "Enterprises"). The 2014 Conservatorship Scorecard establishes objectives and performance targets and measures for 2014 for the Enterprises related to the strategic goals set forth in the 2014 Strategic Plan.

The 2014 Strategic Plan establishes three reformulated strategic goals for the conservatorships of Freddie Mac and Fannie Mae:

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Freddie Mac

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• Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.

• Reduce taxpayer risk through increasing the role of private capital in the mortgage market.

• Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

As part of the first goal, the 2014 Strategic Plan describes various steps related to increasing access to mortgage credit for credit-worthy borrowers. These steps include FHFA evaluating and, when appropriate, implementing changes to the Enterprises' representation and warranty framework designed to provide lenders with greater certainty regarding their origination and servicing obligations. The 2014 Strategic Plan also provides for the Enterprises to refine and improve their foreclosure prevention and servicing initiatives for distressed borrowers and communities. The 2014 Strategic Plan provides for the Enterprises to continue to play an ongoing role in supporting multifamily housing needs, particularly for low-income households. The plan states that FHFA will continue to impose a production cap on Freddie Mac's and Fannie Mae's multifamily businesses, but one that does not require contracting their multifamily business.

FHFA stated that the second ("reduce") goal builds upon and reformulates the "contract" goal used in the 2012 Strategic Plan. The reformulated goal no longer involves specific steps to contract the Enterprises' market presence, but instead focuses on ways to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit. The second goal provides for us to increase the use of single-family credit risk transfer transactions (e.g., STACR debt note transactions). The 2014 Strategic Plan also provides for us to continue using credit risk transfer transactions in the multifamily business and to continue shrinking our mortgage-related investments portfolio consistent with the requirements in the Purchase Agreement, with a focus on selling less liquid assets. The second goal also describes steps to strengthen counterparty standards for mortgage insurers.

The third goal includes the continued development of the Common Securitization Platform. In the 2014 Strategic Plan, FHFA refined the scope of this project to focus on making the new shared system operational for Freddie Mac's and Fannie Mae's existing single-family securitization activities. The third goal provides for the Enterprises to work towards the development of a single (common) security. The third goal also includes steps to continue to develop and implement mortgage data standards for the Enterprises and other market participants.

We continue to align our resources and internal business plans to meet the goals and objectives provided to us by FHFA.

As a result of the net worth sweep dividend provisions of the senior preferred stock, we cannot over the long term build and retain capital from the earnings generated by our business operations, or return capital to stockholders other than Treasury. 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. 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.

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 \$470 billion at December 31, 2014 and was \$414 billion at September 30, 2014. The annual 15% reduction in our mortgage-related investments portfolio cap 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.

Government Support for our Business

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds

from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. At June 30, 2014, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended September 30, 2014. Since conservatorship began through September 30, 2014, we have paid cash dividends of \$88.2 billion to Treasury at the direction of the Conservator.

At September 30, 2014, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2014.

See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS," "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS" and "NOTE 11: STOCKHOLDERS' EQUITY (DEFICIT)" in our 2013 Annual Report for more information on the conservatorship and the Purchase Agreement.

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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” and “NOTE 3: VARIABLE INTEREST ENTITIES” in our 2013 Annual Report for more information about VIEs.

VIEs for which We are the Primary Beneficiary

Based on our evaluation of whether we hold a controlling financial interest in these VIEs, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. Therefore, we consolidate on our balance sheets the assets and liabilities of these trusts. At both September 30, 2014 and December 31, 2013, 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. In addition, we concluded that we are the primary beneficiary of Other Guarantee Transactions with underlying assets totaling \$7.4 billion and \$8.9 billion at September 30, 2014 and December 31, 2013, respectively.

VIEs for which We are not the Primary Beneficiary

Our involvement with VIEs for which we are not the primary beneficiary generally takes one of two forms (or both): (a) purchasing an investment in these entities; or (b) providing a guarantee to these entities.

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.

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

	September 30, 2014			
	Mortgage-Related Security Trusts		Unsecuritized Multifamily Loans ⁽³⁾	Other ⁽²⁾
	Freddie Mac Securities ⁽¹⁾	Non-Freddie Mac Securities ⁽²⁾		
	(in millions)			
Assets and Liabilities Recorded on our Consolidated Balance Sheets				
Assets:				
Restricted cash and cash equivalents	\$12	\$ —	\$10	\$66
Investments in securities:				
Available-for-sale, at fair value	41,363	68,921	—	—
Trading, at fair value	14,900	6,372	—	—
Mortgage loans:				
Held-for-investment, unsecuritized	—	—	43,942	—
Held-for-sale	—	—	7,719	—
Accrued interest receivable	233	182	217	7
Other assets	876	3	268	470
Liabilities:				
Derivative liabilities, net	—	—	—	(32)
Other liabilities	(959)	—	(18)	(602)
Maximum Exposure to Loss	\$81,383	\$ 72,919	\$52,156	\$10,282
Total Assets of Non-Consolidated VIEs ⁽⁴⁾	\$95,740	\$ 395,650	\$94,567	\$22,619
December 31, 2013				
	Mortgage-Related Security Trusts		Unsecuritized Multifamily Loans ⁽³⁾	Other ⁽²⁾
	Freddie Mac Securities ⁽¹⁾	Non-Freddie Mac Securities ⁽²⁾		
	(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

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 (1) 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 on Freddie Mac securities excludes investments in single-family multiclass REMICs and Other Structured Securities, because we already consolidate the collateral of these trusts on our consolidated balance sheets.

For our involvement with non-consolidated 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 (2) 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. See “NOTE 7: INVESTMENTS IN SECURITIES” for additional information regarding our non-Freddie Mac securities.

For unsecuritized multifamily loans, our maximum exposure to loss includes accrued interest receivable associated (3) with these loans. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for additional information about our unsecuritized multifamily loans.

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Except for unsecuritized multifamily loans, this represents the remaining UPB of assets held by non-consolidated VIEs using the most current information available. For unsecuritized multifamily loans, this represents the fair (4) 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.

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" in our 2013 Annual Report.

The table below summarizes the types of loans on our consolidated balance sheets as of September 30, 2014 and December 31, 2013.

Table 4.1 — Mortgage Loans

	September 30, 2014			December 31, 2013		
	Held By			Held By		
	Unsecuritized	Consolidated	Total	Unsecuritized	Consolidated	Total
	Trusts			Trusts		
	(in millions)					
Single-family: ⁽¹⁾						
Fixed-rate						
Amortizing	\$ 106,068	\$ 1,424,474	\$ 1,530,542	\$ 113,597	\$ 1,402,841	\$ 1,516,438
Interest-only	1,031	3,607	4,638	1,476	4,826	6,302
Total fixed-rate	107,099	1,428,081	1,535,180	115,073	1,407,667	1,522,740
Adjustable-rate						
Amortizing	1,644	67,330	68,974	1,935	65,429	67,364
Interest-only	3,522	21,054	24,576	4,576	23,841	28,417
Total adjustable-rate	5,166	88,384	93,550	6,511	89,270	95,781
Other Guarantee Transactions	—	7,366	7,366	—	8,431	8,431
FHA/VA and other governmental	503	3,191	3,694	553	3,354	3,907
Total single-family	112,768	1,527,022	1,639,790	122,137	1,508,722	1,630,859
Multifamily: ⁽¹⁾						
Fixed-rate	44,038	525	44,563	50,701	444	51,145
Adjustable-rate	7,613	—	7,613	8,467	—	8,467
Other governmental	3	—	3	3	—	3
Total multifamily	51,654	525	52,179	59,171	444	59,615
Total UPB of mortgage loans	164,422	1,527,547	1,691,969	181,308	1,509,166	1,690,474
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(3,615	) 25,087	21,472	(4,817	) 23,745	18,928
Fair value adjustments on loans held-for sale ⁽²⁾	104	—	104	6	—	6
Allowance for loan losses on mortgage loans held-for-investment	(19,473	) (3,101	) (22,574	) (21,612	) (3,006	) (24,618
Total mortgage loans, net	\$ 141,438	\$ 1,549,533	\$ 1,690,971	\$ 154,885	\$ 1,529,905	\$ 1,684,790
Mortgage loans, net:						
Held-for-investment	\$ 133,719	\$ 1,549,533	\$ 1,683,252	\$ 146,158	\$ 1,529,905	\$ 1,676,063
Held-for-sale	7,719	—	7,719	8,727	—	8,727

Total mortgage loans, net	\$ 141,438	\$ 1,549,533	\$ 1,690,971	\$ 154,885	\$ 1,529,905	\$ 1,684,790
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(1)Based on UPB.

(2) Consists of fair value adjustments associated with multifamily mortgage loans (for which we have made a fair value election).

During the three months ended September 30, 2014 and 2013, we purchased \$75.8 billion and \$94.6 billion, respectively, in UPB of single-family mortgage loans, and \$0.3 billion during each of these periods in UPB of multifamily loans that were classified as held-for-investment. During the nine months ended September 30, 2014 and 2013, we purchased \$182.2 billion and \$351.2 billion, respectively, in UPB of single-family mortgage loans and \$1.6 billion and \$0.7 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 the three months ended September 30, 2014 and 2013, we sold \$4.5 billion and \$6.4 billion, respectively, of held-for-sale multifamily mortgage loans. During the nine months ended September 30, 2014 and 2013, we sold \$12.9 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.

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In April 2014, we received FHFA's approval for a pilot transaction to sell certain seriously delinquent unsecuritized single-family loans held on our consolidated balance sheet. In connection with this transaction, during the second quarter of 2014, we reclassified \$0.9 billion in recorded investment of mortgage loans from held-for-investment to held-for-sale. We subsequently reclassified certain of these loans back to held-for-investment during the second and third quarters of 2014. We completed the sale in the third quarter of 2014. We may pursue additional sales in the future, subject to FHFA approval. For additional information regarding fair value of our loans classified as held-for-sale, see "NOTE 16: FAIR VALUE DISCLOSURES."

Credit Quality of Mortgage Loans

We evaluate impairment for 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 September 30, 2014 and December 31, 2013, 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 held-for-investment loans on our consolidated balance sheets. Our current LTV ratio estimates are based on available data through the end of each respective period presented.

Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio

	As of September 30, 2014				As of December 31, 2013			
	Estimated Current LTV Ratio ⁽¹⁾			Total	Estimated Current LTV Ratio ⁽¹⁾			Total
	≤ 80	> 80 to 100	> 100 ⁽²⁾		≤ 80	> 80 to 100	> 100 ⁽²⁾	
	(in millions)							
Single-family loans:								
20 and 30-year or more, amortizing fixed-rate ⁽³⁾	\$890,035	\$258,552	\$94,120	\$1,242,707	\$819,509	\$269,110	\$124,491	\$1,213,110
15-year amortizing fixed-rate ⁽³⁾	266,528	15,039	3,931	285,498	270,211	19,658	5,748	295,617
Adjustable-rate ⁽⁴⁾	59,173	6,641	871	66,685	56,208	6,714	1,578	64,500
Alt-A, interest-only, and option ARM ⁽⁵⁾	29,261	18,985	18,142	66,388	29,927	21,564	25,089	76,580
Total single-family loans	\$1,244,997	\$299,217	\$117,064	1,661,278	\$1,175,855	\$317,046	\$156,906	1,649,807
Multifamily loans				44,548				50,874
Total recorded investment of held-for-investment loans				\$1,705,826				\$1,700,681

(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 geographic 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.

The serious delinquency rate for the total of single-family held-for-investment mortgage loans with estimated (2) current LTV ratios in excess of 100% was 8.9% and 9.9% as of September 30, 2014 and December 31, 2013, respectively.

The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of September 30, 2014 and December 31, 2013, we have categorized UPB of approximately \$42.8 billion and \$43.8 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the (3) 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.

We have discontinued our purchases of Alt-A, interest-only, and option ARM loans. For reporting purposes:

(5) (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.

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: IMPAIRED LOANS." For a discussion of certain indicators of credit quality for the

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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.

The table below presents our loan loss reserves activity for the single-family and multifamily loans that we own or guarantee.

Table 4.3 — Detail of Loan Loss Reserves

	Three Months Ended September 30, 2014				2013			
	Allowance for Loan Losses		Reserve for Guarantee Losses ⁽¹⁾		Allowance for Loan Losses		Reserve for Guarantee Losses ⁽¹⁾	
	Unsecuritized	Held By Consolidated Trusts	Total	Total	Unsecuritized	Held By Consolidated Trusts	Total	Total
	(dollars in millions)							
Single-family:								
Beginning balance	\$19,956	\$ 2,652	\$ 100	\$22,708	\$22,862	\$ 3,222	\$ 113	\$26,197
Provision (benefit) for credit losses	211	378	(5)	584	(1,528)	430	(12)	(1,110)
Charge-offs ⁽²⁾	(1,014)	(72)	(2)	(1,088)	(1,917)	(379)	(2)	(2,298)
Recoveries ⁽³⁾	184	6	—	190	1,470	260	—	1,730
Transfers, net ⁽⁴⁾	55	137	—	192	1,064	(800)	—	264
Ending balance	\$19,392	\$ 3,101	\$ 93	\$22,586	\$21,951	\$ 2,733	\$ 99	\$24,783
Multifamily:								
Beginning balance	\$91	\$ —	\$ 16	\$107	\$206	\$ —	\$ 30	\$236
Provision (benefit) for credit losses	(11)	—	1	(10)	(26)	—	(2)	(28)
Charge-offs ⁽²⁾	—	—	—	—	(3)	—	—	(3)
Recoveries ⁽³⁾	1	—	—	1	—	—	—	—
Ending balance	\$81	\$ —	\$ 17	\$98	\$177	\$ —	\$ 28	\$205
Total:								
Beginning balance	\$20,047	\$ 2,652	\$ 116	\$22,815	\$23,068	\$ 3,222	\$ 143	\$26,433
Provision (benefit) for credit losses	200	378	(4)	574	(1,554)	430	(14)	(1,138)
Charge-offs ⁽²⁾	(1,014)	(72)	(2)	(1,088)	(1,920)	(379)	(2)	(2,301)
Recoveries ⁽³⁾	185	6	—	191	1,470	260	—	1,730
Transfers, net ⁽⁴⁾	55	137	—	192	1,064	(800)	—	264
Ending balance	\$19,473	\$ 3,101	\$ 110	\$22,684	\$22,128	\$ 2,733	\$ 127	\$24,988
Ratio of total loan loss reserves (excluding TDR concessions) to net charge-offs for single-family loans ⁽⁵⁾				3.1				1.9
Ratio of total loan loss reserves to net charge-offs for single-family loans ⁽⁶⁾				6.3				3.4

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	Nine Months Ended September 30, 2014				2013			
	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	\$21,487	\$ 3,006	\$ 85	\$24,578	\$25,449	\$ 4,918	\$ 141	\$30,508
Provision (benefit) for credit losses	(665)	745	13	93	(3,182)	1,117	(32)	(2,097)
Charge-offs ⁽²⁾	(3,464)	(298)	(5)	(3,767)	(6,594)	(691)	(7)	(7,292)
Recoveries ⁽³⁾	848	252	—	1,100	2,597	319	—	2,916
Transfers, net ⁽⁴⁾	1,186	(604)	—	582	3,681	(2,930)	(3)	748
Ending balance	\$19,392	\$ 3,101	\$ 93	\$22,586	\$21,951	\$ 2,733	\$ 99	\$24,783
Multifamily:								
Beginning balance	\$125	\$ —	\$ 26	\$151	\$339	\$ 1	\$ 42	\$382
Provision (benefit) for credit losses	(43)	—	(9)	(52)	(159)	(1)	(7)	(167)
Charge-offs ⁽²⁾	(2)	—	—	(2)	(4)	—	—	(4)
Recoveries ⁽³⁾	1	—	—	1	1	—	—	1
Transfers, net ⁽⁴⁾	—	—	—	—	—	—	(7)	(7)
Ending balance	\$81	\$ —	\$ 17	\$98	\$177	\$ —	\$ 28	\$205
Total:								
Beginning balance	\$21,612	\$ 3,006	\$ 111	\$24,729	\$25,788	\$ 4,919	\$ 183	\$30,890
Provision (benefit) for credit losses	(708)	745	4	41	(3,341)	1,116	(39)	(2,264)
Charge-offs ⁽²⁾	(3,466)	(298)	(5)	(3,769)	(6,598)	(691)	(7)	(7,296)
Recoveries ⁽³⁾	849	252	—	1,101	2,598	319	—	2,917
Transfers, net ⁽⁴⁾	1,186	(604)	—	582	3,681	(2,930)	(10)	741
Ending balance	\$19,473	\$ 3,101	\$ 110	\$22,684	\$22,128	\$ 2,733	\$ 127	\$24,988

(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.

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 \$21 million and \$63 million for the three months ended September 30, 2014 and 2013, respectively, and \$59 million and \$204 million for the nine months ended September 30, 2014 and 2013, respectively, related to: (a) amounts recorded as losses on

(2) 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.

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 certain 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.

Consists of: (a) approximately \$(0.1) billion and \$0.8 billion during the three months ended September 30, 2014 and 2013, respectively, and \$0.6 billion and \$2.9 billion during the nine months ended September 30, 2014 and 2013, respectively, of reclassified single-family reserves related to our removal of loans previously held by (4) consolidated trusts, net of reclassifications for single-family loans subsequently resecuritized after such removal; and (b) approximately \$0.2 billion and \$0.3 billion during the three months ended September 30, 2014 and 2013, respectively, and \$0.6 billion and \$0.7 billion during the nine months ended September 30, 2014 and 2013, respectively, attributable to capitalization of past due interest on modified mortgage loans.

Calculated as: (a) the total loan loss reserve balance for single-family loans less our estimate of reserve amounts associated with TDR concessions as of September 30, 2014 and September 30, 2013; divided by (b) the annualized charge-offs, net of recoveries (excluding recoveries for settlement related amounts), associated with single-family (5) loans during the three months ended September 30, 2014 and September 30, 2013, respectively. Both the charge-offs and loan loss reserves exclude amounts associated with loans acquired with deteriorated credit (at the time of our acquisition).

Calculated as: (a) the total loan loss reserve balance for single-family loans as of September 30, 2014 and September 30, 2013; divided by (b) the annualized charge-offs, net of recoveries (excluding recoveries for (6) settlement related amounts), associated with single-family loans during the three months ended September 30, 2014 and September 30, 2013, respectively. Both the charge-offs and loan loss reserves exclude amounts associated with loans acquired with deteriorated credit quality (at the time of our acquisition).

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

	September 30, 2014			December 31, 2013		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
	(in millions)					
Recorded investment:						
Collectively evaluated	\$1,561,107	\$43,559	\$1,604,666	\$1,551,667	\$49,598	\$1,601,265
Individually evaluated	100,171	989	101,160	98,140	1,276	99,416
Total recorded investment	1,661,278	44,548	1,705,826	1,649,807	50,874	1,700,681
Ending balance of the allowance for loan losses:						
Collectively evaluated	(4,294)	(28)	(4,322)	(5,939)	(45)	(5,984)
Individually evaluated	(18,199)	(53)	(18,252)	(18,554)	(80)	(18,634)
Total ending balance of the allowance	(22,493)	(81)	(22,574)	(24,493)	(125)	(24,618)
Net investment in mortgage loans	\$1,638,785	\$44,467	\$1,683,252	\$1,625,314	\$50,749	\$1,676,063

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 12.7% and 12.9% of the recorded investment in such loans at September 30, 2014 and December 31, 2013, respectively, and a substantial portion of the allowance associated with these loans represented concessions provided to borrowers as part of loan modifications. The ending balance of the allowance for loan losses associated with mortgage loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both September 30, 2014 and December 31, 2013.

Credit Protection and Other Forms of Credit Enhancement

In connection with many of our mortgage loans and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, credit risk transfer transactions, 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.

Table 4.5 — Recourse and Other Forms of Credit Protection

	UPB at		Maximum Coverage ⁽²⁾ at	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(in millions)			
Single-family:				
Primary mortgage insurance	\$220,471	\$203,470	\$55,941	\$50,823
Other credit protection:				
Credit risk transfer transactions ⁽³⁾	132,172	56,903	5,515	1,183
Lender recourse and indemnifications	6,693	7,119	6,235	6,726
Pool insurance ⁽⁴⁾	3,380	4,683	988	1,186
HFA indemnification ⁽⁵⁾	3,466	4,051	3,323	3,323
Subordination ⁽⁶⁾	2,442	2,644	347	399
Other credit enhancements	20	38	20	38
Total	\$368,644	\$278,908	\$72,369	\$63,678
Multifamily:				
K Certificates ⁽⁷⁾	\$69,218	\$59,326	\$12,412	\$10,601
Subordination ⁽⁶⁾	4,418	4,435	756	756
HFA indemnification ⁽⁵⁾	827	905	699	699

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Other credit enhancements	5,855	6,666	1,685	1,834
Total	\$80,318	\$71,332	\$15,552	\$13,890

Excludes: (a) FHA/VA and other governmental loans; (b) purchased credit protection associated with \$10.2 billion and \$11.5 billion in UPB of single-family loans underlying Other Guarantee Transactions as of September 30, (1) 2014 and December 31, 2013, respectively; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards.

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 (2) UPB of the securities that are subordinate to our guarantee, which could provide protection by absorbing first losses.

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Represents: (a) STACR debt note transactions in which we issue and sell debt securities, the principal balance of which is subject to the performance of a reference pool of single-family mortgage loans owned or guaranteed by Freddie Mac; and (b) transactions in which we purchased insurance policies on a portion of the mezzanine loss positions that were not issued to third parties in certain STACR debt note transactions. UPB amounts presented (3) represent the UPB of the loans in the associated reference pools as of the respective dates, excluding \$42.0 billion at September 30, 2014 where the related loans are also covered by primary mortgage insurance. 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 third parties in ACIS transactions.

Maximum coverage amounts presented have been limited to the UPB at period end. Excludes approximately \$1.4 (4) billion and \$1.8 billion in UPB at September 30, 2014 and December 31, 2013, 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.

(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.

(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. For information about counterparty risk associated with mortgage insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers." Our structured agency credit risk (STACR) debt note transactions, in which we issue unsecured debt securities that reduce our exposure to credit risk, also provide credit enhancement protecting our single-family credit guarantee portfolio. Our agency credit insurance structures (ACIS) are insurance contracts that obligate the counterparty to reimburse us for credit losses based on a fixed severity schedule up to an aggregate limit that are incurred on our mezzanine credit loss positions associated with STACR debt note transactions in exchange for our payment of periodic premiums. We executed five STACR debt note transactions and two ACIS transactions during the nine months ended September 30, 2014. For more information about our STACR debt note transactions, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" in our 2013 Annual Report.

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.

We also have credit protection for certain mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA, and USDA). The total UPB of these loans was \$3.7 billion and \$3.9 billion as of September 30, 2014 and December 31, 2013, respectively.

NOTE 5: IMPAIRED LOANS**Individually Impaired Loans**

Individually impaired single-family loans include TDRs, as well as loans acquired under our financial guarantees with deteriorated credit quality. Individually impaired multifamily loans include 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-accrual mortgage loans, which are applied consistently for multifamily loans and single-family loan classes, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our 2013 Annual Report.

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).

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Table 5.1 — Individually Impaired Loans

UPB	Balance at September 30, 2014			For the Three Months Ended September 30, 2014			For the Nine Months Ended September 30, 2014			
	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾	
	(in millions)									
Single-family — With no specific allowance recorded ⁽²⁾ :										
20 and 30-year or more, amortizing fixed-rate ⁽³⁾	\$6,051	\$3,932	N/A	\$3,932	\$3,941	\$105	\$12	\$3,618	\$277	\$27
15-year amortizing fixed-rate ⁽³⁾	66	45	N/A	45	45	3	—	37	7	1
Adjustable-rate ⁽⁴⁾ Alt-A, interest-only, and option ARM ⁽⁵⁾	29	22	N/A	22	22	—	—	15	1	—
Total with no specific allowance recorded	7,864	5,148	N/A	5,148	5,159	130	14	4,789	345	32
With specific allowance recorded ⁽⁶⁾ :										
20 and 30-year or more, amortizing fixed-rate ⁽³⁾	77,543	76,419	\$(14,311)	62,108	76,001	588	82	75,562	1,760	213
15-year amortizing fixed-rate ⁽³⁾	1,253	1,259	(40)	1,219	1,225	13	3	1,255	41	7
Adjustable-rate ⁽⁴⁾ Alt-A, interest-only, and option ARM ⁽⁵⁾	874	872	(68)	804	857	5	2	891	17	4
Total with specific allowance recorded	16,881	16,473	(3,780)	12,693	16,410	95	19	16,531	286	46
Combined single-family:	96,551	95,023	(18,199)	76,824	94,493	701	106	94,239	2,104	270
	83,594	80,351	(14,311)	66,040	79,942	693	94	79,180	2,037	240

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20 and 30-year or more, amortizing fixed-rate ⁽³⁾										
15-year amortizing fixed-rate ⁽³⁾	1,319	1,304	(40)	1,264	1,270	16	3	1,292	48	8
Adjustable-rate ⁽⁴⁾ Alt-A, interest-only, and option ARM ⁽⁵⁾	903	894	(68)	826	879	5	2	906	18	4
Total single-family ⁽⁷⁾	\$104,415	\$100,171	\$(18,199)	\$81,972	\$99,652	\$831	\$120	\$99,028	\$2,449	\$302
Multifamily —										
With no specific allowance recorded ⁽⁸⁾	\$532	\$521	N/A	\$521	\$526	\$8	\$2	\$656	\$24	\$7
With specific allowance recorded	476	468	\$(53)	415	474	6	4	521	19	13
Total multifamily	\$1,008	\$989	\$(53)	\$936	\$1,000	\$14	\$6	\$1,177	\$43	\$20
Total single-family and multifamily	\$105,423	\$101,160	\$(18,252)	\$82,908	\$100,652	\$845	\$126	\$100,205	\$2,492	\$322

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	Balance at December 31, 2013				For the Three Months Ended September 30, 2013			For the Nine Months Ended September 30, 2013		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis ⁽¹⁾
(in millions)										
Single-family — With no specific allowance recorded ⁽²⁾ : 20 and 30-year or more, amortizing fixed-rate ⁽³⁾	\$5,927	\$ 3,355	N/A	\$ 3,355	\$3,430	\$ 100	\$ 7	\$3,346	\$ 304	\$ 27
15-year amortizing fixed-rate ⁽³⁾	62	34	N/A	34	32	1	—	30	5	1
Adjustable rate ⁽⁴⁾	19	13	N/A	13	14	—	—	13	1	—
Alt-A, interest-only, and option ARM ⁽⁵⁾	1,758	1,038	N/A	1,038	1,016	18	—	957	53	5
Total with no specific allowance recorded	7,766	4,440	N/A	4,440	4,492	119	7	4,346	363	33
With specific allowance recorded ⁽⁶⁾ : 20 and 30-year or more, amortizing fixed-rate ⁽³⁾	75,633	74,554	\$(14,431)	60,123	70,632	518	63	68,962	1,571	218
15-year amortizing fixed-rate ⁽³⁾	1,324	1,324	(43)	1,281	1,115	12	3	1,095	37	8
Adjustable rate ⁽⁴⁾	967	962	(84)	878	862	5	1	848	16	4
Alt-A, interest-only, and option ARM ⁽⁵⁾	17,210	16,860	(3,996)	12,864	16,514	84	10	16,508	273	53
Total with specific allowance recorded	95,134	93,700	(18,554)	75,146	89,123	619	77	87,413	1,897	283

allowance recorded										
Combined single-family: 20 and 30-year or more, amortizing fixed-rate ⁽³⁾	81,560	77,909	(14,431)	63,478	74,062	618	70	72,308	1,875	245
15-year amortizing fixed-rate ⁽³⁾	1,386	1,358	(43)	1,315	1,147	13	3	1,125	42	9
Adjustable rate ⁽⁴⁾	986	975	(84)	891	876	5	1	861	17	4
Alt-A, interest-only, and option ARM ⁽⁵⁾	18,968	17,898	(3,996)	13,902	17,530	102	10	17,465	326	58
Total single-family ⁽⁷⁾	\$ 102,900	\$ 98,140	\$ (18,554)	\$ 79,586	\$ 93,615	\$ 738	\$ 84	\$ 91,759	\$ 2,260	\$ 316
Multifamily —										
With no specific allowance recorded ⁽⁸⁾	\$ 694	\$ 681	N/A	\$ 681	\$ 848	\$ 11	\$ 4	\$ 1,099	\$ 39	\$ 16
With specific allowance recorded	608	595	\$(80)	515	761	10	8	888	33	27
Total multifamily	\$ 1,302	\$ 1,276	\$(80)	\$ 1,196	\$ 1,609	\$ 21	\$ 12	\$ 1,987	\$ 72	\$ 43
Total single-family and multifamily	\$ 104,202	\$ 99,416	\$(18,634)	\$ 80,782	\$ 95,224	\$ 759	\$ 96	\$ 93,746	\$ 2,332	\$ 359

(1) Consists of income recognized during the period related to loans categorized as non-accrual.

Individually impaired loans with no specific related valuation allowance primarily represent mortgage loans

(2) removed from PC pools and accounted for in accordance with the accounting guidance for loans and debt securities acquired with deteriorated credit quality that have not experienced further deterioration.

(3) 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.

As of September 30, 2014 and December 31, 2013 includes \$96.6 billion and \$95.1 billion, respectively, of UPB associated with loans for which we have recorded a specific allowance, and \$7.9 billion and \$7.8 billion, respectively, of UPB associated with loans that have no specific allowance recorded. See endnote (2) for additional information.

Individually impaired multifamily loans with no specific related valuation allowance primarily represent those (8) 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.

Mortgage Loan Performance

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

Table of ContentsTable 5.2 — Payment Status of Mortgage Loans⁽¹⁾

	September 30, 2014					
	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⁾	\$1,194,713	\$17,839	\$5,955	\$24,200	\$1,242,707	\$24,195
15-year amortizing fixed-rate ⁽²⁾	283,527	1,021	234	716	285,498	716
Adjustable-rate ⁽³⁾	65,472	426	121	666	66,685	666
Alt-A, interest-only, and option ARM ⁽⁴⁾	55,466	2,367	969	7,586	66,388	7,584
Total single-family	1,599,178	21,653	7,279	33,168	1,661,278	33,161
Total multifamily	44,535	—	4	9	44,548	411
Total single-family and multifamily	\$1,643,713	\$21,653	\$7,283	\$33,177	\$1,705,826	\$33,572
	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

Based on recorded investment in the loan. Mortgage loans that have been modified are not counted as past due as (1) 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 master trust agreement 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 September 30, 2014, there were \$0.8 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 \$2.5 billion and \$8.8 billion in UPB of loans from PC trusts (or purchased delinquent loans associated with other guarantee commitments) for the three and nine months ended September 30, 2014, respectively, compared to \$4.0 billion and \$14.6 billion in UPB for the three and nine months ended September 30, 2013, respectively.

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

	September 30, 2014	December 31, 2013	
Single-family: ⁽¹⁾			
Non-credit-enhanced portfolio			
Serious delinquency rate	1.80	% 2.09	%
Total number of seriously delinquent loans	155,955	190,119	
Credit-enhanced portfolio: ⁽²⁾			
Primary mortgage insurance:			
Serious delinquency rate	2.84	% 4.40	%
Total number of seriously delinquent loans	40,003	51,600	
Other credit protection: ⁽³⁾			
Serious delinquency rate	1.41	% 3.66	%
Total number of seriously delinquent loans	13,064	15,828	
Total single-family:			
Serious delinquency rate	1.96	% 2.39	%
Total number of seriously delinquent loans	207,862	255,325	
Multifamily: ⁽⁴⁾			
Non-credit-enhanced portfolio:			
Delinquency rate	0.02	% 0.07	%
UPB of delinquent loans (in millions)	\$ 13	\$ 46	
Credit-enhanced portfolio:			
Delinquency rate	0.03	% 0.11	%
UPB of delinquent loans (in millions)	\$ 26	\$ 75	
Total Multifamily:			
Delinquency rate	0.03	% 0.09	%
UPB of delinquent loans (in millions)	\$ 39	\$ 121	

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 (1) other guarantee commitments may be reported on a different schedule due to variances in industry practice. In the third quarter of 2014, we revised our presentation of single-family non-credit enhanced and credit-enhanced serious delinquency rates. This revision did not impact our total single-family serious delinquency rate. Prior periods have been revised to conform with the current presentation.

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

(3) Consists of single-family mortgage loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure, including loans in reference pools of mortgages covered by STACR transactions as well as other forms of credit protection. See "Table 4.5 — Recourse and Other Forms of Credit Protection " for more information.

(4) 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. 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.

Troubled Debt Restructurings

Single-Family TDRs

For information about our loss mitigation activities that can result in our granting a concession to a borrower, including our participation in HAMP, see “NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS” in our 2013 Annual Report.

During the three and nine months ended September 30, 2014 approximately 47% and 53% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions and approximately 22% and 27%, respectively, involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During the three and nine months ended September 30, 2014, the average term extension was 194 and 180 months and the average interest rate reduction was 1.1% and 1.4%, respectively, on completed single-family loan modifications classified as TDRs.

TDR Activity and Performance

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the three and nine months ended September 30, 2014 and 2013, 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

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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.

Table 5.4 — TDR Activity, by Segment

	Three Months Ended September 30, 2014		September 30, 2013		Nine Months Ended September 30, 2014		September 30, 2013	
	Number of Recorded Investment (dollars in millions)	Post-TDR Recorded Investment	Number of Recorded Investment	Post-TDR Recorded Investment	Number of Recorded Investment	Post-TDR Recorded Investment	Number of Recorded Investment	Post-TDR Recorded Investment
Single-family: ⁽¹⁾								
20 and 30-year or more, amortizing fixed-rate ⁽²⁾	17,194	\$2,518	25,289	\$3,916	52,356	\$7,863	69,681	\$11,149
15-year amortizing fixed-rate	1,931	139	2,020	156	5,278	394	6,617	486
Adjustable-rate ⁽³⁾	397	61	694	122	1,336	207	2,372	382
Alt-A, interest-only, and option ARM ⁽⁴⁾	2,070	418	4,356	952	7,206	1,472	13,063	2,960
Total Single-family	21,592	3,136	32,359	5,146	66,176	9,936	91,733	14,977
Multifamily	—	—	3	25	1	10	8	98
Total	21,592	\$3,136	32,362	\$5,171	66,177	\$9,946	91,741	\$15,075

The pre-TDR recorded investment for single-family loans initially classified as TDR during the three and nine (1) months ended September 30, 2014 was \$3.1 billion and \$9.9 billion, respectively, compared to \$5.1 billion and \$14.9 billion during the three and nine months ended September 30, 2013, respectively.

(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.”

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents loans based on their original product category before modification and excludes loans subject to other loss mitigation activity. Substantially all of our completed single-family loan modifications classified as a TDR during the nine months ended September 30, 2014 resulted in a modified loan with a fixed interest rate. However, many of these fixed-rate loans include provisions for the reduced interest rates to remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification.

Table 5.5 — Payment Defaults of Completed TDR Modifications, by Segment

	Three Months Ended September 30, 2014		September 30, 2013		Nine Months Ended September 30, 2014		September 30, 2013	
	Number of Recorded Investment ⁽²⁾ (dollars in millions)	Post-TDR Recorded Investment	Number of Recorded Investment ⁽²⁾	Post-TDR Recorded Investment	Number of Recorded Investment ⁽²⁾	Post-TDR Recorded Investment	Number of Recorded Investment ⁽²⁾	Post-TDR Recorded Investment
Single-family:								
20 and 30-year or more, amortizing fixed-rate ⁽³⁾	5,190	\$ 922	3,943	\$ 726	13,814	\$ 2,483	10,726	\$ 1,989

15-year amortizing fixed-rate	170	16	106	12	461	45	323	36
Adjustable-rate	88	15	64	14	250	46	167	34
Alt-A, interest-only, and option ARM ⁽⁴⁾	604	138	590	155	1,778	428	1,652	437
Total single-family	6,052	\$ 1,091	4,703	\$ 907	16,303	\$ 3,002	12,868	\$ 2,496
Multifamily	—	\$ —	—	\$ —	—	\$ —	—	\$ —

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.

(1) 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 September 30.

(2) See endnote (3) of “Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio.”

(3) 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 nine months ended September 30, 2014

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and 2013, 6,779 and 6,136, respectively, of such loans (with a post-TDR recorded investment of \$1.0 billion for both periods) experienced a payment default within a year after the loss mitigation activity occurred.

Loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During the nine months ended September 30, 2014 and 2013, 3,027 and 15,611, respectively, of such loans (with a post-TDR recorded investment of \$0.5 billion and \$2.6 billion, respectively) experienced a payment default within a year after the borrowers' bankruptcy.

NOTE 6: REAL ESTATE OWNED

We obtain REO properties: (a) when we are the highest bidder at foreclosure sales of properties that collateralize 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). See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in our 2013 Annual Report for a discussion of our significant accounting policies for REO.

The table below provides a summary of the change in the carrying value of our combined single-family and multifamily REO balances. For the periods presented in the table below, the weighted average holding period for our disposed properties was less than one year.

Table 6.1 — REO

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(in millions)			
Beginning balance — REO	\$3,696	\$4,073	\$4,602	\$4,407
Additions	815	1,832	3,293	4,820
Dispositions	(1,475)	(1,523)	(4,859)	(4,845)
Ending balance — REO	3,036	4,382	3,036	4,382
Beginning balance, valuation allowance	(19)	(22)	(51)	(29)
Change in valuation allowance	(106)	8	(74)	15
Ending balance, valuation allowance	(125)	(14)	(125)	(14)
Ending balance — REO, net	\$2,911	\$4,368	\$2,911	\$4,368

The REO balance, net at September 30, 2014 and December 31, 2013 associated with single-family properties was \$2.9 billion and \$4.5 billion, respectively, and the balance associated with multifamily properties was \$0 million and \$10 million, respectively. The Southeast region represented approximately 35% and 34% of our single-family REO additions during the three months ended September 30, 2014 and 2013, respectively, based on the number of properties, and the North Central region represented approximately 26% and 28% of our single-family REO additions during these periods. Our single-family REO inventory consisted of 29,344 properties and 47,307 properties at September 30, 2014 and December 31, 2013, respectively. In recent years, the foreclosure process has been significantly slowed in many geographic 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.

Excluding holding period valuation adjustments and recoveries, we recognized gains of \$132 million and \$212 million on REO dispositions during the three months ended September 30, 2014 and 2013, respectively, and \$415 million and \$608 million on REO dispositions during the nine months ended September 30, 2014 and 2013, respectively. We increased (decreased) our valuation allowance for properties in our REO inventory by \$111 million and \$(5) million during the three months ended September 30, 2014 and 2013, respectively, and \$110 million and \$12 million during the nine months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014 and 2013 was \$3.1 billion and \$4.5 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 September 30, 2014 and December 31, 2013, all available-for-sale securities are mortgage-related securities.

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Freddie Mac

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Table 7.1 — Available-For-Sale Securities

September 30, 2014	Amortized Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Other-Than-Temporary Impairment ⁽¹⁾	Temporary Impairment ⁽²⁾	
Available-for-sale securities:					
Freddie Mac	\$40,070	\$ 1,376	\$—	\$(83)	) \$41,363
Fannie Mae	9,845	686	—	(5)	) 10,526
Ginnie Mae	194	17	—	(1)	) 210
CMBS	22,735	982	(3)	(100)	) 23,614
Subprime	22,543	1,038	(780)	(100)	) 22,701
Option ARM	5,575	355	(219)	(4)	) 5,707
Alt-A and other	4,897	649	(26)	(7)	) 5,513
Obligations of states and political subdivisions	2,461	35	—	(3)	) 2,493
Manufactured housing	574	79	(2)	(1)	) 650
Total available-for-sale securities	\$ 108,894	\$ 5,217	\$(1,030)	\$(304)	) \$ 112,777
December 31, 2013					
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	(23)	(314)	) 30,338
Subprime	29,897	382	(2,467)	(313)	) 27,499
Option ARM	6,617	338	(376)	(5)	) 6,574
Alt-A and other	8,322	526	(118)	(24)	) 8,706
Obligations of states and political subdivisions	3,533	23	(7)	(54)	) 3,495
Manufactured housing	629	61	(4)	(2)	) 684
Total available-for-sale securities	\$ 127,439	\$ 5,379	\$(2,995)	\$(904)	) \$ 128,919

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

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

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

The table below shows the fair value of available-for-sale securities in a gross unrealized loss position, and whether they have been in that position less than 12 months, or 12 months or greater.

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Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position

September 30, 2014	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)			
Available-for-sale securities:				
Freddie Mac	\$5,838	\$(36)	\$1,163	\$(47)
Fannie Mae	467	(3)	48	(2)
Ginnie Mae	69	(1)	—	—
CMBS	582	(12)	1,643	(91)
Subprime	606	(9)	8,852	(871)
Option ARM	513	(4)	1,790	(219)
Alt-A and other	204	(4)	562	(29)
Obligations of states and political subdivisions	5	—	188	(3)
Manufactured housing	18	—	32	(3)
Total available-for-sale securities in a gross unrealized loss position	\$8,302	\$(69)	\$14,278	\$(1,265)
December 31, 2013				
Available-for-sale securities:				
Freddie Mac	\$7,957	\$(144)	\$649	\$(45)
Fannie Mae	248	(2)	19	(1)
CMBS	1,147	(85)	1,992	(252)
Subprime	472	(19)	19,103	(2,761)
Option ARM	77	(2)	2,608	(379)
Alt-A and other	262	(5)	1,854	(137)
Obligations of states and political subdivisions	1,885	(56)	24	(5)
Manufactured housing	—	—	65	(6)
Total available-for-sale securities in a gross unrealized loss position	\$12,048	\$(313)	\$26,314	\$(3,586)

At September 30, 2014, total gross unrealized losses on available-for-sale securities were \$1.3 billion. The gross unrealized losses relate to 458 individual lots representing 426 separate securities. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for 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" and "NOTE 7: INVESTMENTS IN SECURITIES" in our 2013 Annual Report.

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 2014 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 September 30, 2014, 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.

The table below presents the modeled attributes, including default rates, prepayment rates, and severities, without regard to subordination, that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

Table of ContentsTable 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities
September 30, 2014

	Subprime	Option ARM	Alt-A ⁽¹⁾ Fixed Rate	Variable Rate	Hybrid Rate	
	(dollars in millions)					
Issuance Date						
2004 and prior:						
UPB	\$563	\$40	\$363	\$266	\$195	
Weighted average collateral defaults ⁽²⁾	34	% 21	% 13	% 30	% 17	%
Weighted average collateral severities ⁽³⁾	57	% 45	% 46	% 43	% 39	%
Weighted average voluntary prepayment rates ⁽⁴⁾	7	% 9	% 12	% 8	% 9	%
Average credit enhancements ⁽⁵⁾	30	% —	% 14	% 11	% 13	%
2005:						
UPB	\$2,839	\$1,786	\$535	\$386	\$1,283	
Weighted average collateral defaults ⁽²⁾	44	% 29	% 18	% 39	% 24	%
Weighted average collateral severities ⁽³⁾	59	% 48	% 45	% 51	% 41	%
Weighted average voluntary prepayment rates ⁽⁴⁾	4	% 8	% 11	% 7	% 10	%
Average credit enhancements ⁽⁵⁾	48	% 1	% (1)	% 17	% 2	%
2006:						
UPB	\$12,785	\$4,158	\$308	\$432	\$431	
Weighted average collateral defaults ⁽²⁾	50	% 38	% 26	% 42	% 33	%
Weighted average collateral severities ⁽³⁾	59	% 49	% 45	% 49	% 41	%
Weighted average voluntary prepayment rates ⁽⁴⁾	3	% 7	% 9	% 7	% 9	%
Average credit enhancements ⁽⁵⁾	7	% (3)	% (2)	% 1	% (4)	%
2007:						
UPB	\$14,519	\$2,509	\$121	\$467	\$208	
Weighted average collateral defaults ⁽²⁾	50	% 37	% 41	% 41	% 37	%
Weighted average collateral severities ⁽³⁾	59	% 48	% 52	% 50	% 46	%
Weighted average voluntary prepayment rates ⁽⁴⁾	2	% 7	% 7	% 7	% 8	%
Average credit enhancements ⁽⁵⁾	3	% 3	% (1)	% (18)	% —	%
Total:						
UPB	\$30,706	\$8,493	\$1,327	\$1,551	\$2,117	
Weighted average collateral defaults ⁽²⁾	49	% 36	% 21	% 39	% 26	%
Weighted average collateral severities ⁽³⁾	59	% 48	% 46	% 49	% 41	%
	3	% 7	% 10	% 7	% 10	%

Weighted average voluntary
prepayment rates⁽⁴⁾

Average credit enhancements⁽⁵⁾ 9 % — % 3 % 1 % 2 %

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

(2) The expected cumulative default rate is expressed as a percentage of the current collateral UPB.

(3) The expected average loss given default is calculated as the ratio of cumulative loss over cumulative default for each security.

(4) The security's voluntary prepayment rate represents the average of the monthly voluntary prepayment rate weighted by the security's outstanding UPB.

(5) 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.

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.

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Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013		2013	
Available-for-sale securities: ⁽¹⁾				
CMBS	\$—	) \$(3	) \$—	) \$(13
Subprime	(125	) (45	) (582	) (91
Option ARM	(39	) (12	) (72	) (17
Alt-A and other	(2	) (66	) (33	) (91
Manufactured housing	—	—	—	(1
Total net impairment of available-for-sale securities recognized in earnings	\$(166	) \$(126	) \$(687	) \$(213

Includes \$132 million and \$598 million during the three and nine months ended September 30, 2014, respectively, (1) compared to \$118 million and \$134 million during the three and nine months ended September 30, 2013,

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: (a) the present value of expected future cash flows at the time of impairment, including the estimated proceeds from bond insurance; and (b) 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 July 1, 2014, July 1, 2013, January 1, 2014, and January 1, 2013, 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.

Table 7.5 — Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
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	\$11,118	\$15,772	\$14,463	\$16,745
Additions:				
Amounts related to credit losses for which an other-than-temporary impairment was not previously recognized	—	4	—	20
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized	34	4	89	59
Reductions:				
Amounts related to securities which were sold, written off, or matured	(807) (261) (1,141) (1,066

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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	(1,949)	(182)	(4,736)	(291)
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	(110)	(137)	(389)	(267)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings ⁽¹⁾	\$8,286	\$15,200	\$8,286	\$15,200

(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.

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Table 7.6 — Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
	(in millions)			
Gross realized gains				
Mortgage-related securities:				
Freddie Mac	\$81	\$172	\$745	\$248
Fannie Mae	11	1	52	17
CMBS	11	685	151	892
Alt-A and other	38	10	242	56
Obligations of states and political subdivisions	—	1	1	13
Subprime	74	—	141	—
Option ARM	58	—	62	—
Total mortgage-related securities gross realized gains	273	869	1,394	1,226
Gross realized gains	273	869	1,394	1,226
Gross realized losses				
Mortgage related securities: ⁽¹⁾				
Freddie Mac	(9	) (19	) (11	) (19
Option ARM	(24	) (4	) (24	) (4
Alt-A and other	(5	) (18	) (6	) (18
Subprime	(128	) (1	) (141	) (3
Total mortgage-related securities gross realized losses	(166	) (42	) (182	) (44
Gross realized losses	(166	) (42	) (182	) (44
Net realized gains (losses)	\$107	\$827	\$1,212	\$1,182

The individual sales do not change our conclusion, at period end, that we do not intend to sell our remaining (1) 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.

Table 7.7 — Maturities of Available-For-Sale Securities⁽¹⁾

As of September 30, 2014

	Total Amortized Cost	Total Fair Value	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
			Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)									
Available-for-sale securities:										
Freddie Mac	\$40,070	\$41,363	\$—	\$—	\$428	\$443	\$585	\$619	\$39,057	\$40,301
Fannie Mae	9,845	10,526	1	1	73	77	117	129	9,654	10,319
Ginnie Mae	194	210	—	—	5	5	23	27	166	178
CMBS	22,735	23,614	—	—	316	332	8	8	22,411	23,274
Subprime	22,543	22,701	—	—	—	—	—	—	22,543	22,701
Option ARM	5,575	5,707	—	—	—	—	—	—	5,575	5,707
Alt-A and other	4,897	5,513	2	2	46	47	3	3	4,846	5,461
	2,461	2,493	—	—	40	42	60	60	2,361	2,391

Obligations of states
and political
subdivisions

Manufactured housing	574	650	—	—	—	—	9	12	565	638
Total										
available-for-sale securities	\$108,894	\$112,777	\$3	\$3	\$908	\$946	\$805	\$858	\$107,178	\$110,970

(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.

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.

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Table 7.8 — Trading Securities

	September 30, 2014 (in millions)	December 31, 2013
Mortgage-related securities:		
Freddie Mac	\$ 14,900	\$9,349
Fannie Mae	6,238	7,180
Ginnie Mae	17	98
Other	120	141
Total mortgage-related securities	21,275	16,768
U.S. Treasury securities	9,159	6,636
Total fair value of trading securities	\$30,434	\$23,404

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 September 30, 2014.

For the three and nine months ended September 30, 2014, we recorded net unrealized gains (losses) on trading securities held at those dates of \$(142) million and \$(141) million, respectively. For the three and nine months ended September 30, 2013, we recorded net unrealized gains (losses) on trading securities held at those dates of \$(0.2) billion and \$(1.3) billion, respectively.

NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our “indebtedness” is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, “indebtedness” does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” for information regarding restrictions on the amount of mortgage-related securities that we may own. Our debt cap under the Purchase Agreement is \$663.0 billion in 2014 and will decline to \$563.6 billion on January 1, 2015. As of September 30, 2014, our aggregate indebtedness was \$439.5 billion. 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.

Other Debt

The table below summarizes the balances and effective interest rates for other debt. We had no balances in federal funds purchased and securities sold under agreements to repurchase at either September 30, 2014 or December 31, 2013.

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Table 8.1 — Other Debt

	September 30, 2014			December 31, 2013				
	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	\$ 111,857	\$ 111,817	0.12	% \$ 137,767	\$ 137,712	0.13	%	
Medium-term notes	—	—	—	4,000	4,000	0.16		
Total other short-term debt	\$ 111,857	\$ 111,817	0.12	\$ 141,767	\$ 141,712	0.13		
Other long-term debt:								
Original maturities on or before December 31,								
2014	\$ 19,239	\$ 19,226	1.41	% \$ 78,115	\$ 78,041	1.91	%	
2015	58,778	58,764	1.62	70,303	70,284	1.44		
2016	66,933	67,142	2.03	63,564	63,669	2.19		
2017	72,122	72,118	1.82	51,908	51,885	2.14		
2018	31,692	31,652	1.70	33,418	33,372	1.74		
Thereafter	78,913	74,987	2.83	72,270	67,804	2.93		
Total other long-term debt ⁽³⁾	327,677	323,889	2.02	369,578	365,055	2.08		
Total other debt	\$ 439,534	\$ 435,706		\$ 511,345	\$ 506,767			

Represents par value, net of associated discounts or premiums, and hedge-related basis adjustments. Includes \$5.0 (1) billion and \$2.7 billion at September 30, 2014 and December 31, 2013, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, issuance costs, and hedge-related basis adjustments.

(3) Balance, net for other long-term debt includes callable debt of \$106.2 billion and \$107.5 billion at September 30, 2014 and December 31, 2013, respectively, which gives us the option to call or not call debt for a variety of reasons that include managing the composition of liabilities or economic reasons.

Debt Securities of Consolidated Trusts Held by Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts (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.

Table 8.2 — Debt Securities of Consolidated Trusts Held by Third Parties

	September 30, 2014			December 31, 2013				
	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)								
Single-family: ⁽³⁾								
		\$ 1,004,733	\$ 1,032,252	4.07 %	2014 - 2052	\$ 969,270	\$ 993,683	4.14 %

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30-year or more, fixed-rate	2014 - 2053							
20-year fixed-rate	2014 - 2034	72,710	74,974	3.77	2014 - 2034	75,910	78,252	3.81
15-year fixed-rate	2014 - 2029	268,564	275,018	3.15	2014 - 2029	270,513	277,018	3.23
Adjustable-rate	2014 - 2047	64,058	65,421	2.63	2014 - 2047	60,683	61,830	2.64
Interest-only ⁽⁴⁾	2026 - 2041	18,243	18,290	3.36	2026 - 2041	21,352	21,390	3.70
FHA/VA	2015 - 2044	1,281	1,307	5.44	2014 - 2041	1,284	1,303	5.67
Total single-family		1,429,589	1,467,262			1,399,012	1,433,476	
Multifamily ⁽⁵⁾	2017 - 2019	525	583	4.77	2018 - 2019	444	508	4.96
Total debt securities of consolidated trusts held by third parties ⁽⁶⁾		\$1,430,114	\$1,467,845			\$1,399,456	\$1,433,984	

(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.

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(6) The effective rate for debt securities of consolidated trusts held by third parties was 3.21% and 3.39% as of September 30, 2014 and December 31, 2013, respectively.

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. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

We classify derivatives into three categories: (a) exchange-traded derivatives; (b) cleared derivatives; and (c) OTC derivatives. Exchange-traded derivatives include standardized interest-rate futures contracts and options on futures contracts. Cleared derivatives refer to those interest-rate swaps that the U.S. Commodity Futures Trading Commission has determined are subject to the central clearing requirement of the Dodd-Frank Act. OTC derivatives refer to those derivatives that are neither exchange-traded derivatives nor cleared derivatives.

Types of Derivatives

We principally use the following types of derivatives:

- LIBOR-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions); and
- LIBOR- and Treasury-based exchange-traded futures.

In addition to swaps, futures, and purchased options, our derivative positions include written options and swaptions, commitments, swap guarantees, and credit derivatives. Our last foreign-currency swaps matured in January 2014.

For additional information about our use of derivatives, and the types of derivatives that we use, see "NOTE 9: DERIVATIVES" in our 2013 Annual Report. For a discussion of our significant accounting policies related to derivatives, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Derivatives" in our 2013 Annual Report.

Derivative Assets and Liabilities at Fair Value

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

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Table 9.1 — Derivative Assets and Liabilities at Fair Value

	September 30, 2014			December 31, 2013		
	Notional or Contractual Amount (in millions)	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities	Notional or Contractual Amount	Derivatives at Fair Value Assets	Derivatives at Fair Value Liabilities
Total derivative portfolio						
Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging						
Interest-rate swaps:						
Receive-fixed	\$219,773	\$4,145	\$(823)	\$281,727	\$4,475	\$(2,438)
Pay-fixed	215,723	1,763	(9,436)	242,597	5,540	(10,879)
Basis (floating to floating)	300	2	—	300	4	—
Total interest-rate swaps	435,796	5,910	(10,259)	524,624	10,019	(13,317)
Option-based:						
Call swaptions						
Purchased	53,800	2,012	—	59,290	2,373	—
Written	5,855	—	(57)	5,945	—	(201)
Put Swaptions						
Purchased	26,475	351	—	33,410	698	—
Written	1,345	—	(2)	—	—	—
Other option-based derivatives ⁽¹⁾	13,915	692	—	23,365	1,041	(3)
Total option-based	101,390	3,055	(59)	122,010	4,112	(204)
Futures	40,000	—	—	50,270	—	—
Foreign-currency swaps	—	—	—	528	39	—
Commitments	47,070	88	(66)	18,731	61	(69)
Credit derivatives	5,307	14	(19)	5,386	—	(6)
Swap guarantee derivatives	3,305	—	(28)	3,477	—	(31)
Total derivatives not designated as hedging instruments	632,868	9,067	(10,431)	725,026	14,231	(13,627)
Derivative interest receivable (payable)		803	(1,513)		1,243	(1,835)
Netting adjustments ⁽²⁾		(8,973)	10,014		(14,411)	15,282
Total derivative portfolio, net	\$632,868	\$897	\$(1,930)	\$725,026	\$1,063	\$(180)

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

(2) Represents counterparty netting and cash collateral netting. Net cash collateral posted was \$1.0 billion and \$871 million at September 30, 2014 and December 31, 2013, 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⁾			
	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(in millions)			
Interest-rate swaps:				
Receive-fixed				
Foreign-currency denominated	\$—	\$ (5)	\$ (1)	\$ (16)
U.S. dollar denominated	(751)	(68)	2,301	(8,326)
Total receive-fixed swaps	(751)	(73)	2,300	(8,342)
Pay-fixed	568	1,184	(5,804)	14,752
Basis (floating to floating)	(1)	1	(1)	(2)
Total interest-rate swaps	(184)	1,112	(3,505)	6,408
Option based:				
Call swaptions				
Purchased	99	(94)	1,172	(1,954)
Written	7	42	(145)	424
Put swaptions				
Purchased	(41)	(157)	(817)	(29)
Other option-based derivatives ⁽²⁾	13	(29)	134	(338)
Total option-based	78	(238)	344	(1,897)
Futures	(3)	(2)	(43)	54
Foreign-currency swaps	—	20	(7)	20
Commitments	100	(59)	296	(180)
Credit derivatives	19	—	(9)	—
Swap guarantee derivatives	1	2	6	7
Other ⁽³⁾	(1)	(1)	(2)	(2)
Subtotal	10	834	(2,920)	4,410
Accrual of periodic settlements: ⁽⁴⁾				
Receive-fixed interest-rate swaps	726	1,005	2,343	2,831
Pay-fixed interest-rate swaps	(1,354)	(1,913)	(4,319)	(5,579)
Other	1	—	2	1
Total accrual of periodic settlements	(627)	(908)	(1,974)	(2,747)
Total	\$ (617)	\$ (74)	\$ (4,894)	\$ 1,663

(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.

(4) The accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of comprehensive income.

Hedge Designation of Derivatives

At September 30, 2014 and December 31, 2013, 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 reclassified from AOCI linked to interest payments on other debt are recorded in other debt interest expense and amounts not linked to interest payments on other debt are recorded in expense related to derivatives. In the three months ended September 30, 2014 and 2013, we reclassified from AOCI into earnings, losses of \$76 million and \$110

million, respectively, related to closed cash flow hedges. In the nine months ended September 30, 2014 and 2013, we reclassified from AOCI into earnings, losses of \$232 million and \$365 million, respectively, related to closed cash flow hedges. See “NOTE 11: STOCKHOLDERS’ EQUITY — Accumulated Other Comprehensive Income — Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges” for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES

Derivative Portfolio

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and variation margin in connection with cleared and exchange-traded derivatives, such as cleared interest-rate swaps and futures contracts, exposes us to institutional credit risk in the event that our clearing members or

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the financial clearinghouses fail to meet their obligations. The use of cleared and exchange-traded derivatives decreases our credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. OTC derivatives expose us to the credit risk of individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its obligations.

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

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty's derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted.

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 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 September 30, 2014 and December 31, 2013, 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 \$66 million and \$188 million at September 30, 2014 and December 31, 2013, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on September 30, 2014, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$66 million. Four counterparties each accounted for greater than 10% and collectively accounted for 84% 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 September 30, 2014. Three of these counterparties, Toronto Dominion Bank, JP Morgan Chase Bank, and Barclays Bank PLC, were rated "A" or above and Royal Bank of Scotland PLC was rated "BBB+" using the lower of S&P's or Moody's rating stated in terms of the S&P equivalent as of September 30, 2014. 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 \$302 million and \$382 million as of September 30, 2014 and December 31, 2013, respectively, which includes the consideration of cash collateral that has been posted for initial and variation margin. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. We post initial and variation margin in connection with our cleared and exchange-traded derivatives. For information about margin we have posted in connection with cleared and exchange-traded derivatives, see "— Collateral Pledged."

The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was \$88 million and \$61 million at September 30, 2014 and December 31, 2013, 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.

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Table 10.1 — Offsetting of Financial Assets and Liabilities

September 30, 2014					
	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 ⁽³⁾	Net Amount
(in millions)					
Assets:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	\$9,312	\$ (8,819)	) \$ 493	\$ (427)	) \$ 66
Cleared and exchange-traded derivatives	456	(154)	) 302	—	302
Other ⁽⁴⁾	102	—	102	—	102
Total derivatives	9,870	(8,973)	) 897	(427)	) 470
Securities purchased under agreements to resell	29,956	—	29,956	(29,956)) —
Total	\$39,826	\$ (8,973)	) \$ 30,853	\$ (30,383)	) \$470
Liabilities:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	\$ (9,930)	) \$ 8,113	\$ (1,817)	) \$ 1,782	\$ (35)
Cleared and exchange-traded derivatives	(1,901)	) 1,901	—	—	—
Other ⁽⁴⁾	(113)	) —	(113)	) —	(113)
Total	\$ (11,944)	) \$ 10,014	\$ (1,930)	) \$ 1,782	\$ (148)
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 ⁽³⁾	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 ⁽⁴⁾	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 ⁽⁴⁾	(109)	—	(109)	—	(109)
Total	\$ (15,462)	\$ 15,282	\$ (180)	\$ —	\$ (180)

(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.

Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of \$1.7 billion and \$0.6 billion as of September 30, 2014 and December 31, 2013, respectively.

(4) Includes commitments, swap guarantee derivatives, certain written options and credit derivatives.

Collateral Pledged

Collateral Pledged to Freddie Mac

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.

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We had cash and cash equivalents pledged to us related to OTC derivative instruments of \$1.4 billion and \$1.9 billion at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, we had \$427 million and \$432 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 \$0 million and \$646 million of cash pledged to us related to cleared derivatives at September 30, 2014 and December 31, 2013, respectively.

Also, at September 30, 2014 and December 31, 2013, we had \$0 billion and \$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 September 30, 2014 and December 31, 2013 was \$84 million and \$66 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 September 30, 2014 and December 31, 2013.

Collateral Pledged by Freddie Mac

We are required to pledge collateral for margin requirements with third-party custodians in connection with secured financings and derivative transactions with some counterparties. The amount of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on September 30, 2014, was \$2.5 billion for which we posted cash and non-cash collateral of \$2.5 billion in the normal course of business. Since we were fully collateralized as of September 30, 2014, we would not have been required to post additional collateral on that day if the credit-risk-related contingent features underlying these agreements were triggered.

The table below summarizes all securities pledged as collateral by us, including assets that the secured party may repledge.

Table 10.2 — Collateral in the Form of Securities Pledged

	September 30, 2014 (in millions)	December 31, 2013
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties ⁽¹⁾	\$2,152	\$10,654
Available-for-sale securities	—	70
Trading securities	1,393	365
Total securities pledged	\$3,545	\$11,089

Represents PCs held by us in our Investments segment mortgage investments portfolio and pledged as collateral (1) which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

Securities Pledged with the Ability of the Secured Party to Repledge

At September 30, 2014, we pledged securities with the ability of the secured party to repledge of \$3.5 billion in connection with derivatives and securities transactions.

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. This line of credit expired in July 2014. Of the remainder at December 31, 2013, we pledged \$0.6 billion

in connection with derivative transactions.

Cash Pledged

At September 30, 2014, we pledged \$2.6 billion of collateral in the form of cash and cash equivalents, of which \$0.7 billion related to our OTC derivative agreements as we had \$2.5 billion of such derivatives in a net loss position. 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. The remaining \$1.9 billion and \$275 million was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at September 30, 2014 and December 31, 2013, respectively.

NOTE 11: STOCKHOLDERS' EQUITY

Senior Preferred Stock

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No cash was received from Treasury under the Purchase Agreement during the three months ended September 30, 2014, because we had positive net worth at June 30, 2014 and, consequently, FHFA did not request a draw on our behalf. At September 30, 2014, 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 September 30, 2014 and the Capital Reserve Amount of \$2.4 billion in 2014, our dividend obligation to Treasury in December 2014 will be \$2.8 billion. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Government Support for our Business” in our 2013 Annual Report 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 September 30, 2014 and December 31, 2013, respectively. See “NOTE 18: REGULATORY CAPITAL” for additional information.

Stock-Based Compensation

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during the three and nine months ended September 30, 2014. For a discussion regarding our stock-based compensation plans, see “NOTE 11: STOCKHOLDERS’ EQUITY (DEFICIT)” in our 2013 Annual Report.

For purposes of the earnings-per-share calculation, all stock options outstanding at September 30, 2014 and 2013 were out of the money and excluded from the computation of dilutive potential common shares for the three and nine months ended September 30, 2014 and 2013, respectively. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement.

Dividends Declared

No common dividends were declared during the nine months ended September 30, 2014. During the three months ended March 31, 2014, June 30, 2014, and September 30, 2014 we paid dividends of \$10.4 billion, \$4.5 billion, and \$1.9 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during the nine months ended September 30, 2014.

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

	Nine Months Ended September 30, 2014			
	AOCI Related to Available-For-Sale Securities ⁽¹⁾ (in millions)	AOCI Related to Cash Flow Hedge Relationships ⁽²⁾	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$962	\$(1,000)	\$32	\$(6)
Other comprehensive income before reclassifications ⁽³⁾	1,903	—	1	1,904
Amounts reclassified from accumulated other comprehensive income	(341)	151	(2)	(192)
Changes in AOCI by component	1,562	151	(1)	1,712
Ending balance	\$2,524	\$(849)	\$31	\$1,706
	Nine Months Ended September 30, 2013			
	AOCI Related to Available-For-Sale Securities ⁽¹⁾	AOCI Related to Cash Flow Hedge Relationships ⁽²⁾	AOCI Related to Defined Benefit Plans	Total

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	(in millions)			
Beginning balance	\$ (1,444)	\$ (1,316)	\$ (178)	\$ (2,938)
Other comprehensive income before reclassifications ⁽³⁾	2,066	—	18	2,084
Amounts reclassified from accumulated other comprehensive income	(630)	250	6	(374)
Changes in AOCI by component	1,436	250	24	1,710
Ending balance	\$ (8)	\$ (1,066)	\$ (154)	\$ (1,228)

The amounts reclassified from AOCI represent the gain or loss recognized in earnings due to a sale of an (1) available-for-sale security or the recognition of a net impairment recognized in earnings. See “NOTE 7: INVESTMENTS IN SECURITIES” for more information.

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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 (2) 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 nine months ended September 30, 2014 and 2013, net of tax expense of \$1.0 billion and \$1.1 billion, respectively, for AOCI related to available-for-sale securities.

Reclassifications from AOCI to Net Income

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

Table 11.2 — Reclassifications from AOCI to Net Income

Details about Accumulated Other Comprehensive Income Components	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Consolidated Statements of Comprehensive Income
	2014	2013	2014	2013	
(in millions)					
AOCI related to available-for-sale securities	\$ 107	\$ 827	\$ 1,212	\$ 1,182	Other gains (losses) on investment securities recognized in earnings
	(166)	(126)	(687)	(213)	Net impairment of available-for-sale securities recognized in earnings
	(59)	701	525	969	Total before tax
	21	(246)	(184)	(339)	Tax (expense) or benefit
	(38)	455	341	630	Net of tax
AOCI related to cash flow hedge relationships	(1)	(3)	(2)	(5)	Interest expense — Other debt
	(75)	(107)	(230)	(360)	Expense related to derivatives
	(76)	(110)	(232)	(365)	Total before tax
	26	34	81	115	Tax (expense) or benefit
	(50)	(76)	(151)	(250)	Net of tax
AOCI related to defined benefit plans	1	(2)	3	(6)	Salaries and employee benefits
	—	—	(1)	—	Tax (expense) or benefit
	1	(2)	2	(6)	Net of tax
Total reclassifications in the period	\$ (87)	\$ 377	\$ 192	\$ 374	Net of tax

Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges

As shown in “Table 11.1 — Changes in AOCI by Component, Net of Tax,” the total AOCI related to derivatives designated as cash flow hedges was a loss of \$0.8 billion and \$1.1 billion at September 30, 2014 and 2013, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges. The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately \$178 million, net of taxes, of the \$0.8 billion of cash flow hedge losses in AOCI at September 30, 2014

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.

NOTE 12: INCOME TAXES

Income Tax (Expense) Benefit

For the three months ended September 30, 2014 and 2013, we reported an income tax (expense) benefit of \$(1.0) billion and \$24.0 billion, respectively, resulting in effective tax rates of 31.5% and (367.1)%, respectively. For the nine months ended September 30, 2014 and 2013, we reported an income tax (expense) benefit of \$(3.4) billion and \$24.0 billion, respectively, resulting in effective tax rates of 31.1% and (150.0)%, respectively. The change to income tax expense in the 2014 periods from income tax benefit in the 2013 periods results from the release of the valuation allowance in the third quarter of 2013. For the three and nine months ended September 30, 2014, our effective tax rate was different from the statutory rate of 35% primarily due to our recognition of low income housing tax credits.

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Deferred Tax Assets and Liabilities

We had a net deferred tax asset of \$18.5 billion and \$22.7 billion as of September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, our net deferred tax asset consisted primarily of basis differences related to derivative instruments and deferred fees. The net deferred tax asset decreased compared to December 31, 2013, primarily due to a decrease in the net operating loss carryforward as a result of taxable income estimated to be generated in 2014.

Based on all positive and negative evidence available as of September 30, 2014, we have determined that it is more likely than not that our net deferred tax asset will be realized. Therefore, a valuation allowance is not needed.

Unrecognized Tax Benefits and IRS Examinations

We have evaluated all income tax positions and determined that there are no uncertain tax positions that require reserves as of September 30, 2014.

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."

For a discussion of our significant accounting policies related to income taxes, please see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 12: INCOME TAXES" in our 2013 Annual Report.

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. The reclassifications are described in "NOTE 13: SEGMENT REPORTING" in our 2013 Annual Report, and the allocations are described below.

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. See "NOTE 13: SEGMENT REPORTING" in our 2013 Annual Report for a description of our reportable segments and the activities and items included in each.

Segment Earnings

The financial performance of our Single-family Guarantee segment is measured based on its contribution to GAAP net income (loss). Our Investments segment and Multifamily segment are measured based on each segment's contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes. Taxes for the reportable segments are generally calculated by applying our corporate estimated annual effective tax rate to each segment's pre-tax income.

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 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.”

In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. With this change, the Multifamily segment reflects the entire change in fair value of these assets in its financial results, and the Investments segment transfers the change in fair value of the derivatives associated with the Multifamily segment's investments securities and held-for-sale loans to the Multifamily segment. The purpose of this change is to better reflect the operations of the Multifamily segment on a stand-alone basis. Prior period results have been revised to conform with the current period presentation.

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Segment Adjustments

In presenting Segment Earnings management and guarantee income and net interest income, we make adjustments to better reflect how management measures and assesses the performance of each segment and the company as a whole. These adjustments relate to amounts that are not reflected in net income (loss) as determined in accordance with GAAP. These adjustments are reversed through the segment adjustments line item within Segment Earnings, so that Segment Earnings (loss) for each segment equals GAAP net income (loss) for each segment. Segment adjustments consist of the following:

We adjust our Segment Earnings management and guarantee income for the Single-family Guarantee segment to include the amortization of buy-down fees and credit delivery fees recorded in periods prior to the January 1, 2010 adoption of accounting guidance for the transfers of financial assets and the consolidation of VIEs. As of September 30, 2014, the unamortized balance of buy-down fees was \$0.3 billion and the unamortized balance of credit delivery fees was \$0.8 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 September 30, 2014, the unamortized balance of such premiums and discounts, net was \$3.3 billion and the unamortized balance of buy-up fees was \$0.4 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 and hedging costs related to certain assets of each segment. The Investments segment manages the funding and interest rate risk for all business segments. In connection with this activity, the Investments segment transfers a cost to the other segments. The actual costs may vary relative to these intra-company transfers. In addition, the financial statement volatility associated with the use of derivatives to hedge certain assets outside the Investments segment is not fully allocated to other segments. These allocations do not include the effects of dividends paid on our senior preferred stock.

The table below presents Segment Earnings by segment.

Table 13.1 — Summary of Segment Earnings and Comprehensive Income (Loss)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(in millions)			
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	\$ 196	\$ 2,019	\$ 1,077	\$ 4,546
Investments	1,440	3,902	5,060	9,051
Multifamily	445	639	1,339	2,560
All Other	—	23,926	(13	) 23,898
Total Segment Earnings, net of taxes	2,081	30,486	7,463	40,055
Net income	\$ 2,081	\$ 30,486	\$ 7,463	\$ 40,055
Comprehensive income (loss) of segments:				
Single-family Guarantee	\$ 195	\$ 2,021	\$ 1,076	\$ 4,560
Investments	2,259	4,335	6,953	12,016
Multifamily	332	155	1,159	1,291
All Other	—	23,926	(13) 23,898
Comprehensive income of segments	2,786	30,437	9,175	41,765

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Comprehensive income \$2,786 \$30,437 \$9,175 \$41,765

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

Three Months Ended September 30, 2014

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments ⁽¹⁾	Total Reconciling Items ⁽²⁾	Total per Consolidated Statements of Comprehensive Income
(in millions)									
Net interest income	\$ 19	\$ 762	\$ 240	\$—	\$ 1,021	\$2,474	\$ 168	\$ 2,642	\$ 3,663
(Provision) benefit for credit losses	(818)	—	10	—	(808)	234	—	234	(574)
Non-interest income (loss):									
Management and guarantee income ⁽³⁾	1,341	—	65	—	1,406	(1,247)	(75)	(1,322)	84
Net impairment of available-for-sale securities recognized in earnings	—	37	—	—	37	(203)	—	(203)	(166)
Derivative gains (losses)	19	(133)	310	—	196	(813)	—	(813)	(617)
Gains (losses) on trading securities	—	(202)	(14)	—	(216)	—	—	—	(216)
Gains (losses) on mortgage loans	52	—	116	—	168	—	—	—	168
Other non-interest income (loss)	351	1,594	11	—	1,956	(445)	—	(445)	1,511
Non-interest expense:									
Administrative expenses	(302)	(104)	(66)	—	(472)	—	—	—	(472)
REO operations income (expense)	(109)	—	6	—	(103)	—	—	—	(103)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(198)	—	—	—	(198)	—	—	—	(198)
Other non-interest expense	(40)	—	(3)	—	(43)	—	—	—	(43)
Segment adjustments ⁽²⁾	(75)	168	—	—	93	—	(93)	(93)	—
Income tax expense	(44)	(682)	(230)	—	(956)	—	—	—	(956)
Net income	196	1,440	445	—	2,081	—	—	—	2,081
	—	769	(113)	—	656	—	—	—	656

Changes in unrealized gains (losses) related to available-for-sale securities										
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	50	—	—	50	—	—	—	50	
Changes in defined benefit plans	(1)	—	—	(1)	—	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	819	(113)	—	705	—	—	705
Comprehensive income	\$ 195	\$ 2,259	\$ 332	\$—	\$ 2,786	\$—	\$ —	\$ —	\$ 2,786	

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Nine Months Ended September 30, 2014

	Single-family Guarantee	Investment	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments ⁽¹⁾	Total Reconciling Items ⁽²⁾	Total per Consolidated Statements of Comprehensive Income
(in millions)									
Net interest income	\$(27)	\$ 2,324	\$ 705	\$—	\$ 3,002	\$7,206	\$ 468	\$ 7,674	\$ 10,676
(Provision) benefit for credit losses	(742)	—	52	—	(690)	649	—	649	(41)
Non-interest income (loss):									
Management and guarantee income ⁽³⁾	3,764	—	186	—	3,950	(3,473)	(233)	(3,706)	244
Net impairment of available-for-sale securities recognized in earnings	—	(95)	—	—	(95)	(592)	—	(592)	(687)
Derivative gains (losses)	(9)	(2,745)	507	—	(2,247)	(2,647)	—	(2,647)	(4,894)
Gains (losses) on trading securities	—	(243)	60	—	(183)	—	—	—	(183)
Gains (losses) on mortgage loans	(143)	—	526	—	383	—	—	—	383
Other non-interest income	602	8,004	143	—	8,749	(1,143)	—	(1,143)	7,606
Non-interest expense:									
Administrative expenses	(855)	(339)	(199)	—	(1,393)	—	—	—	(1,393)
REO operations income (expense)	(120)	—	8	—	(112)	—	—	—	(112)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(563)	—	—	—	(563)	—	—	—	(563)
Other non-interest expense	(159)	(6)	(16)	(18)	(199)	—	—	—	(199)
Segment adjustments ⁽²⁾	(233)	468	—	—	235	—	(235)	(235)	—
Income tax (expense) benefit	(438)	(2,308)	(633)	5	(3,374)	—	—	—	(3,374)
Net income (loss)	1,077	5,060	1,339	(13)	7,463	—	—	—	7,463
Changes in unrealized gains	—	1,742	(180)	—	1,562	—	—	—	1,562

(losses) related to available-for-sale securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	151	—	—	151	—	—	—	151
Changes in defined benefit plans	(1)	—	—	—	(1)	—	—	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	1,893	(180)	—	1,712	—	—	—	1,712
Comprehensive income (loss)	\$1,076	\$ 6,953	\$ 1,159	\$(13)	\$ 9,175	\$—	\$ —	\$ —	\$ 9,175

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Three Months Ended September 30, 2013

	Single-family Guarantee	Investment	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments ⁽¹⁾	Total Reconciling Items ⁽²⁾	Total per Consolidated Statements of Comprehensive Income
(in millions)									
Net interest income	\$203	\$ 883	\$ 321	\$—	\$ 1,407	\$2,600	\$ 269	\$ 2,869	\$ 4,276
Benefit for credit losses	885	—	28	—	913	225	—	225	1,138
Non-interest income (loss):									
Management and guarantee income ⁽³⁾	1,230	—	52	—	1,282	(1,058)	(154)	(1,212)	70
Net impairment of available-for-sale securities recognized in earnings	—	16	(4)	—	12	(138)	—	(138)	(126)
Derivative gains (losses)	—	1,624	(615)	—	1,009	(1,083)	—	(1,083)	(74)
Gains (losses) on trading securities	—	(184)	(23)	—	(207)	—	—	—	(207)
Gains (losses) on mortgage loans	—	—	114	—	114	—	—	—	114
Other non-interest income	246	1,503	709	—	2,458	(546)	—	(546)	1,912
Non-interest expense:									
Administrative expenses	(263)	(133)	(59)	—	(455)	—	—	—	(455)
REO operations income (expense)	67	—	12	—	79	—	—	—	79
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(150)	—	—	—	(150)	—	—	—	(150)
Other non-interest expense	(45)	—	(6)	—	(51)	—	—	—	(51)
Segment adjustments ⁽²⁾	(154)	269	—	—	115	—	(115)	(115)	—
Income tax (expense) benefit	—	(76)	110	23,926	23,960	—	—	—	23,960
Net income	2,019	3,902	639	23,926	30,486	—	—	—	30,486
Changes in unrealized gains	—	357	(484)	—	(127)	—	—	—	(127)

(losses) related to available-for-sale securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	76	—	—	76	—	—	—	76
Changes in defined benefit plans	2	—	—	—	2	—	—	—	2
Total other comprehensive income (loss), net of taxes	2	433	(484)	—	(49)	—	—	—	(49)
Comprehensive income	\$2,021	\$ 4,335	\$ 155	\$23,926	\$30,437	\$—	\$—	\$—	\$ 30,437

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Nine Months Ended September 30, 2013

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income Reclassifications	Segment Adjustments ⁽¹⁾	Total Reconciling Items ⁽²⁾	Total per Consolidated Statements of Comprehensive Income
(in millions)									
Net interest income	\$ 300	\$ 2,752	\$ 944	\$—	\$ 3,996	\$ 7,835	\$ 854	\$ 8,689	\$ 12,685
Benefit for credit losses	1,474	—	167	—	1,641	623	—	623	2,264
Non-interest income (loss):									
Management and guarantee income ⁽³⁾	3,771	—	147	—	3,918	(3,129)	(596)	(3,725)	193
Net impairment of available-for-sale securities recognized in earnings	—	73	(15)	—	58	(271)	—	(271)	(213)
Derivative gains (losses)	—	3,235	1,550	—	4,785	(3,122)	—	(3,122)	1,663
Gains (losses) on trading securities	—	(1,213)	(122)	—	(1,335)	—	—	—	(1,335)
Gains (losses) on mortgage loans	—	—	(440)	—	(440)	—	—	—	(440)
Other non-interest income	695	3,214	928	—	4,837	(1,936)	—	(1,936)	2,901
Non-interest expense:									
Administrative expenses	(756)	(377)	(198)	—	(1,331)	—	—	—	(1,331)
REO operations income (expense)	168	—	15	—	183	—	—	—	183
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(366)	—	—	—	(366)	—	—	—	(366)
Other non-interest expense	(139)	(1)	(18)	(27)	(185)	—	—	—	(185)
Segment adjustments ⁽²⁾	(596)	854	—	—	258	—	(258)	(258)	—
Income tax (expense) benefit	(5)	514	(398)	23,925	24,036	—	—	—	24,036
Net income (loss)	4,546	9,051	2,560	23,898	40,055	—	—	—	40,055
Changes in unrealized gains	—	2,707	(1,271)	—	1,436	—	—	—	1,436

(losses) related to available-for-sale securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	250	—	—	250	—	—	—	250
Changes in defined benefit plans	14	8	2	—	24	—	—	—	24
Total other comprehensive income (loss), net of taxes	14	2,965	(1,269)	—	1,710	—	—	—	1,710
Comprehensive income	\$4,560	\$ 12,016	\$ 1,291	\$23,898	\$41,765	\$—	\$—	\$—	\$ 41,765

See “NOTE 13: SEGMENT REPORTING — Segment Earnings — Investment Activity-Related Reclassifications” and (1) “— Credit Guarantee Activity-Related Reclassifications” in our 2013 Annual Report for information regarding these reclassifications.

(2) See “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.

NOTE 14: FINANCIAL GUARANTEES

We provide financial guarantees to securitization trusts that issue mortgage-related securities backed by single-family mortgage loans, which we consolidate. During the three and nine months ended September 30, 2014, we issued approximately \$77.4 billion and \$186.9 billion, respectively, compared to \$98.0 billion and \$362.0 billion during the three and nine months ended September 30, 2013, 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. See "NOTE 14: FINANCIAL GUARANTEES" in our 2013 Annual Report for a description of the nature of the transactions that give rise to our financial guarantees.

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

	September 30, 2014			December 31, 2013		
	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⁾	\$81,117	\$806	39	\$71,809	\$731	40
Other guarantee commitments	26,076	754	35	29,160	791	36
Derivative instruments ⁽⁴⁾	10,740	90	31	9,856	239	32

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.

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 \$110 million and \$111 million as of September 30, 2014 and December 31, 2013, respectively, and is included within other liabilities on our consolidated balance sheets.

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 September 30, 2014 or December 31, 2013.

See “NOTE 9: DERIVATIVES” for information about these derivative guarantees.

Non-Consolidated Freddie Mac Securities

During the three and nine months ended September 30, 2014, we issued approximately \$3.9 billion and \$11.0 billion, respectively, compared to \$5.3 billion and \$17.5 billion during the three and nine months ended September 30, 2013, respectively, in UPB of Other Guarantee Transactions, all of which were backed by multifamily mortgage loans, for which a guarantee asset and guarantee obligation were recognized.

For many of the 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 the nine months ended September 30, 2014 and 2013, we issued and guaranteed \$2.1 billion and \$8.4 billion, respectively, in UPB of long-term standby commitments. These long-term standby commitments totaled \$16.5 billion and \$19.2 billion in UPB at September 30, 2014 and December 31, 2013, respectively. We also had other guarantee commitments on multifamily housing revenue bonds that were issued by HFAs of \$9.1 billion in UPB at both September 30, 2014 and December 31, 2013. In addition, as of September 30, 2014 and December 31, 2013, we had issued guarantees under the TCLFP on securities backed by HFA bonds with UPB of \$0.4 billion and \$0.9 billion, respectively.

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 geographic area of the approximately \$1.7 trillion UPB of our single-family credit guarantee portfolio at both September 30, 2014 and December 31, 2013. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” in our 2013 Annual Report and “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” and “NOTE 7: INVESTMENTS IN SECURITIES” for more information about credit risk associated with loans and mortgage-related securities that we hold.

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Table 15.1 — Concentration of Credit Risk — Single-Family Credit Guarantee Portfolio

	September 30, 2014		December 31, 2013		Percent of Credit Losses ⁽¹⁾⁽²⁾ Nine Months Ended		
	Percentage of Portfolio ⁽²⁾⁽³⁾	Serious Delinquency Rate	Percentage of Portfolio ⁽²⁾⁽³⁾	Serious Delinquency Rate	September 30, 2014	September 30, 2013	
Year of Origination							
2014	8	% 0.01	% N/A	N/A	—	% N/A	
2013	16	0.04	16	% 0.01	% —	—	%
2012	15	0.07	16	0.04	—	—	
2011	7	0.23	8	0.18	—	—	
2010	6	0.44	7	0.39	—	1	
2009	6	0.89	7	0.88	2	2	
Subtotal - New single-family book	58	0.23	54	0.24	2	3	
HARP and other relief refinance loans ⁽⁴⁾	20	0.70	21	0.64	7	6	
2005 to 2008 Legacy single-family book	14	7.66	16	8.77	83	82	
Pre-2005 Legacy single-family book	8	3.12	9	3.24	8	9	
Total	100	% 1.96	% 100	% 2.39	% 100	% 100	%
Region ⁽⁵⁾							
West	29	% 1.31	% 28	% 1.73	% 13	% 27	%
Northeast	26	2.87	26	3.23	26	13	
North Central	17	1.53	18	1.81	21	23	
Southeast	16	2.56	16	3.42	36	34	
Southwest	12	1.17	12	1.36	4	3	
Total	100	% 1.96	% 100	% 2.39	% 100	% 100	%
State							
Arizona, California, Florida, and Nevada ⁽⁶⁾	26	% 2.09	% 26	% 3.01	% 37	% 49	%
Illinois, Michigan, and Ohio ⁽⁷⁾	10	1.77	11	2.11	17	19	
New York and New Jersey ⁽⁸⁾	9	4.69	9	5.11	10	3	
All other	55	1.57	54	1.85	36	29	
Total	100	% 1.96	% 100	% 2.39	% 100	% 100	%

Credit losses consist of the aggregate amount of charge-offs, net of recoveries, and REO operations expense in (1) each of the respective periods and exclude foregone interest on TDRs and non-accrual loans and other market-based losses recognized on our consolidated statements of comprehensive income.

(2) Within these columns, "—" represents less than 0.5%.

Based on the UPB of our single-family credit guarantee portfolio, which includes unsecuritized single-family (3) 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.

HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (4) (from 2009 to 2014). 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.

(5)

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).

(6) 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.

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

(8) 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

	Percentage of Portfolio ⁽¹⁾		Serious Delinquency Rate		
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	
Interest-only	2	% 2	% 9.89	% 12.51	%
Option ARM ⁽²⁾	—	—	10.39	12.30	
Alt-A	3	3	8.81	10.06	
Original LTV ratio greater than 90% ⁽³⁾	16	16	2.64	3.22	
Lower FICO scores at origination (less than 620)	3	3	8.71	9.99	

(1) Based on UPB. Excludes loans underlying certain Other Guarantee Transactions for which data was not available. Within these columns, "—" represents less than 0.5%.

(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) 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 7% and 10% at September 30, 2014 and December 31, 2013, 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 8.92% and 9.94% as of September 30, 2014 and December 31, 2013, 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 14% of our single-family credit guarantee portfolio, based on UPB at September 30, 2014, and these loans accounted for approximately 83% of our credit losses during the nine months ended September 30, 2014.

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

	September 30, 2014		December 31, 2013		
	UPB	Delinquency Rate ⁽¹⁾	UPB	Delinquency Rate ⁽¹⁾	
	(dollars in billions)				
State ⁽²⁾					
California	\$22.9	—	% \$22.4	0.03	%
Texas	16.9	—	16.7	0.02	
New York	11.2	0.11	11.4	0.12	
Florida	9.4	0.05	9.3	0.28	
Virginia	6.9	—	7.0	0.37	
Maryland	6.8	—	6.7	—	
All other states	61.1	0.03	59.3	0.08	
Total	\$135.2	0.03	% \$132.8	0.09	%
Region ⁽³⁾					
Northeast	\$37.4	0.03	% \$37.5	0.10	%
West	35.0	—	33.8	0.07	
Southwest	26.9	—	26.2	0.05	
Southeast	24.7	0.07	24.1	0.16	
North Central	11.2	0.07	11.2	0.07	
Total	\$135.2	0.03	% \$132.8	0.09	%
Other Categories ⁽⁴⁾					
Original LTV ratio greater than 80%	\$5.7	0.04	% \$5.6	0.19	%
Original DSCR below 1.10	2.1	—	2.2	—	

(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 September 30, 2014.

(3) See endnote (5) 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 greater than 100% was approximately 1% and 2% at September 30, 2014 and December 31, 2013, respectively, and our estimate of the current average DSCR for these loans was 1.07 and 0.95, respectively. We estimate that the percentage of loans in our multifamily mortgage portfolio with a current DSCR less than 1.0 was 2% and 3% at September 30, 2014 and December 31, 2013, respectively, and the average current LTV ratio of these loans was 87% and 95%, respectively. Our estimates of current DSCRs are based on the latest reported net operating income for these properties. Our estimates of the current LTV ratios are based on either values we receive from a third-party service provider or our internal estimates of property value. Our internal estimates of property value are primarily derived using techniques that include income capitalization and comparable sales analysis using third party market data.

Seller/Service

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 50% of our single-family purchase volume during the nine months ended September 30, 2014. Wells Fargo Bank, N.A. accounted for 13% of our single-family mortgage purchase volume and was the only single-family seller/servicer that comprised 10% or more of our purchase volume during the nine months ended September 30, 2014.

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 September 30, 2014 and December 31, 2013, the UPB of loans subject to our repurchase requests (seller and servicer related) issued to our single-family seller/servicers was approximately \$0.8 billion and

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\$2.2 billion, respectively (these figures include repurchase requests for which appeals were pending). During the three and nine months ended September 30, 2014, we recovered amounts that covered losses with respect to \$0.3 billion and \$1.7 billion, respectively, in UPB of loans subject to our repurchase requests.

During the nine months ended September 30, 2014, we entered into settlement agreements with certain counterparties to release specified loans from certain seller repurchase obligations in exchange for one-time cash payments, which totaled approximately \$0.4 billion in aggregate. These agreements related to loans with \$26.1 billion in aggregate principal amount (as of the dates of the respective agreements) and we recognized a benefit for credit losses of \$0.3 billion included within our consolidated statement of comprehensive income during the nine months ended September 30, 2014 related to these agreements.

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" and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" in our 2013 Annual Report for further information.

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 23% and 12%, respectively, of our single-family mortgage loans, and were the only seller/servicers that serviced more than 10% of our loans, as of September 30, 2014. In recent years, there has been a shift in our servicing from depository institutions to non-depository specialty servicers that specialize in workouts of problem loans. Some of these specialty servicers have grown rapidly in recent years and now service a large share of our loans. As of both September 30, 2014 and December 31, 2013, approximately 10% of our total single-family credit guarantee portfolio were serviced by our three largest non-depository specialty servicers. Several of these specialty servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities. As of September 30, 2014, approximately 42% of our investments in single-family non-agency mortgage-related securities, based on UPB, were serviced by subsidiaries of Ocwen Financial Corp., and this was the only specialty servicer who serviced 10% or more of our recorded investment in non-agency mortgage-related securities at that date. Specialty servicers, including subsidiaries of Ocwen Financial Corp., or Ocwen, have recently been the subject of significant adverse regulatory scrutiny from regulators, and Ocwen's credit rating has been downgraded.

As of September 30, 2014 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 38% of this portfolio.

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" in our 2013 Annual Report for additional information. As of September 30, 2014, mortgage insurers provided coverage with maximum loss limits of \$56.9 billion, for \$225.3 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, Radian Guaranty Inc., Mortgage Guaranty Insurance Corporation, United Guaranty Residential Insurance Company, and Genworth Mortgage Insurance Corporation each accounted for more than 10% and collectively represented approximately 80% of our overall mortgage insurance coverage at September 30, 2014. Of our four largest counterparties, three are rated BB-, and one is rated BBB+, as of September 30, 2014, based on the lower of the S&P or Moody's rating scales and stated in terms of the S&P equivalent. PMI Mortgage Insurance Co. (PMI), Republic Mortgage Insurance Co. (RMIC), and Triad Guaranty Insurance Corp. (Triad) are no longer rated by either S&P or Moody's because they are in rehabilitation or under regulatory supervision.

We received proceeds of \$1.0 billion and \$1.6 billion during the nine months ended September 30, 2014 and 2013, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of \$0.4 billion and \$0.7 billion (excluding deferred payment obligations

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associated with unpaid claim amounts) as of September 30, 2014 and December 31, 2013, respectively. The balance of our outstanding accounts receivable from mortgage insurers, net of associated reserves, was approximately \$0.3 billion and \$0.5 billion at September 30, 2014 and December 31, 2013, respectively.

PMI and Triad are paying a portion of their claims in cash and the remaining portion of the claims represents a deferred payment obligation. It is not clear how the regulators of these companies will administer their respective deferred payment plans, nor when or if those obligations will be paid.

In June 2014, RMIC announced that it would: (a) resume paying valid claims at 100% of the claim amount without further deferrals, effective with claims settled on or after July 1, 2014, and (b) pay, in full, all deferred payment obligations outstanding as of June 30, 2014. In July 2014, we received RMIC's payment of all deferred payment obligations owed to us. Previously, RMIC had been paying all valid claims 60% in cash and 40% in deferred payment obligations.

See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" in our 2013 Annual Report for further information on our mortgage insurance counterparties.

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 September 30, 2014, the maximum principal exposure to credit losses related to such policies was \$7.1 billion. At September 30, 2014, 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 92% of our total coverage.

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" in our 2013 Annual Report 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 September 30, 2014 and December 31, 2013, including amounts related to our consolidated VIEs, there were \$52.4 billion and \$85.9 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 September 30, 2014 these included:

- \$20.9 billion of securities purchased under agreements to resell with 14 counterparties that had short-term S&P ratings of A-1 or above;
- \$0.6 billion of securities purchased under agreements to resell with one counterparty that had a short-term S&P rating of A-2;
- \$8.5 billion of securities purchased under agreements to resell with three counterparties that do not have short-term S&P or other third-party credit ratings, but were evaluated under the company's counterparty credit risk system and were determined to be eligible for these transactions (by providing more than 100% in approved collateral);
- \$0.4 billion of cash equivalents invested in Treasury securities; and
- \$21.9 billion of cash deposited with the Federal Reserve Bank of New York (as a non-interest-bearing deposit).

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. Lawsuits against a number of parties are currently pending. These parties include some of our significant seller/servicers and counterparties, including counterparties to debt funding and derivatives transactions.

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In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against 18 corporate families of financial institutions and related defendants alleging securities laws violations and, in some cases, fraud. These lawsuits seek 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. As of September 30, 2014, most of these lawsuits have been resolved through settlements. We and FHFA reached settlements with the following parties in these FHFA-filed lawsuits in the nine months ended September 30, 2014:

•Morgan Stanley (February 2014)

•Societe Generale (February 2014)

•Credit Suisse Holdings (USA), Inc. (March 2014)

•Bank of America Corporation (March 2014)

•Barclays Bank PLC (April 2014)

•First Horizon National Corporation (April 2014)

•RBS Securities, Inc. (June 2014); resolved claims against RBS in FHFA's lawsuit against Ally Financial Inc.

•Goldman Sachs and Co. (August 2014)

•HSBC North America Holdings, Inc. (September 2014)

At the direction of our Conservator, we are also working to enforce contractual rights of certain trusts with respect to the non-agency mortgage-related securities we hold, and have directed certain trustees to initiate litigation on behalf of certificate holders against several financial institutions for breach of contract claims. We reached a settlement with WMC Mortgage LLC in March 2014.

During the nine months ended September 30, 2014, we recognized \$6.1 billion within non-interest income on our consolidated statements of comprehensive income from the settlements discussed above.

We have also been participating with other investors in non-agency mortgage-related securities in certain investor consortiums that seek to enforce certain claims relating to such securities. In April 2014, Citigroup Inc. announced a settlement with an investor consortium to resolve certain claims with respect to a number of mortgage securitization trusts. The settlement is subject to various conditions, and it is not possible to predict the timing or ultimate outcome of the approval process, which could take substantial time. We have investments in certain of these securitization trusts and would expect to benefit from this settlement, if it is ultimately approved. For more information, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers" in our 2013 Annual Report.

In November 2013, J.P. Morgan Chase & Co. announced a settlement with an investor consortium to resolve certain claims with respect to a number of mortgage securitization trusts in which we have investments. In October 2014, the trustees of the securitizations filed suit in New York state court seeking approval of the settlement. If the settlement is approved, Freddie Mac would expect to receive a benefit from this settlement for those covered securitizations that Freddie Mac holds at the time settlement proceeds are distributed to the trusts. Freddie Mac would expect to similarly benefit from other outstanding investor consortium settlements with respect to mortgage securitization trusts in which we have investments, to the extent such settlements are approved.

See "Seller/Servicers" for information about specialty servicers that service mortgage loans underlying our non-agency mortgage-related securities.

Derivative Portfolio

For a discussion of our derivative counterparties as well as related master netting and collateral agreements, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES."

NOTE 16: FAIR VALUE DISCLOSURES

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

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

Fair Value Measurements

The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements based on observable inputs other than quoted prices in active markets for identical

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assets or liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis

The table below presents our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option, as of September 30, 2014 and December 31, 2013.

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Table of ContentsTable 16.1 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis
September 30, 2014

	Level 1	Level 2	Level 3	Netting Adjustment ⁽¹⁾	Total
	(in millions)				
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$37,057	\$4,306	\$—	\$41,363
Fannie Mae	—	10,420	106	—	10,526
Ginnie Mae	—	206	4	—	210
CMBS	—	20,262	3,352	—	23,614
Subprime	—	—	22,701	—	22,701
Option ARM	—	—	5,707	—	5,707
Alt-A and other	—	—	5,513	—	5,513
Obligations of states and political subdivisions	—	—	2,493	—	2,493
Manufactured housing	—	—	650	—	650
Total available-for-sale securities, at fair value	—	67,945	44,832	—	112,777
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	14,005	895	—	14,900
Fannie Mae	—	6,061	177	—	6,238
Ginnie Mae	—	17	—	—	17
Other	—	116	4	—	120
Total mortgage-related securities	—	20,199	1,076	—	21,275
U.S. Treasury securities	9,159	—	—	—	9,159
Total trading securities, at fair value	9,159	20,199	1,076	—	30,434
Total investments in securities	9,159	88,144	45,908	—	143,211
Mortgage loans:					
Held-for-sale, at fair value	—	7,719	—	—	7,719
Derivative assets, net:					
Interest-rate swaps	—	5,910	—	—	5,910
Option-based derivatives	—	3,055	—	—	3,055
Other	—	66	36	—	102
Subtotal, before netting adjustments	—	9,031	36	—	9,067
Netting adjustments ⁽¹⁾	—	—	—	(8,170)	(8,170)
Total derivative assets, net	—	9,031	36	(8,170)	897
Other assets:					
Guarantee asset, at fair value	—	—	1,570	—	1,570
All other, at fair value	—	—	8	—	8
Total other assets	—	—	1,578	—	1,578
Total assets carried at fair value on a recurring basis	\$9,159	\$104,894	\$47,522	\$(8,170)	\$153,405
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair	\$—	\$45	\$—	\$—	\$45

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value					
Other debt, at fair value	—	4,988	—	—	4,988
Derivative liabilities, net:					
Interest-rate swaps	—	10,259	—	—	10,259
Option-based derivatives	—	59	—	—	59
Other	—	66	47	—	113
Subtotal, before netting adjustments	—	10,384	47	—	10,431
Netting adjustments ⁽¹⁾	—	—	—	(8,501)	(8,501)
Total derivative liabilities, net	—	10,384	47	(8,501)	1,930
Total liabilities carried at fair value on a recurring basis	\$—	\$15,417	\$47	\$(8,501)	\$6,963

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	Fair Value at December 31, 2013			Netting Adjustment ⁽¹⁾	Total
	Level 1 (in millions)	Level 2	Level 3		
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	\$—	\$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
U.S. Treasury 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

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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

Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was \$1.0 billion and \$871 million, respectively, at September 30, 2014 and December 31, (1)2013. The net interest receivable (payable) of derivative assets and derivative liabilities was \$(0.7) billion and \$(0.6) billion at September 30, 2014 and December 31, 2013, respectively, which was mainly related to interest rate swaps.

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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 both the three and nine months ended September 30, 2014 and 2013, our transfers between Level 1 and Level 2 assets and liabilities were less than \$1 million.

The table below presents a reconciliation of all assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2014 and 2013, 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 three and nine months ended September 30, 2014 and 2013. 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 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs

	Three Months Ended September 30, 2014											
	Realized and unrealized gains (losses)											Unrealized gains (losses) still held ⁽⁶⁾
Balance, June 30, 2014	Included in earnings ⁽¹⁾	Included in other comprehensive income ⁽¹⁾	Total Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽⁵⁾	Transfers out of Level 3 ⁽⁵⁾	Balance, September 30, 2014			
(in millions)												
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$2,892	\$3	\$ 1	\$ 4	\$4,364	\$—	\$(2,077)	\$(34)	\$—	\$(843)	\$4,306	\$—
Fannie Mae	136	—	(1)	(1)	—	—	(4)	45	(70)	106	—	—
Ginnie Mae	5	—	—	—	—	—	(1)	—	—	4	—	—
CMBS	3,326	—	41	41	—	—	(15)	—	—	3,352	—	—
Subprime	24,291	(53)	1,068	1,015	—	—	(2,423)	(182)	—	22,701	(125)	(125)
Option ARM	6,231	(12)	172	160	—	—	(616)	(68)	—	5,707	(39)	(39)
Alt-A and other	6,454	(85)	96	11	—	—	(1,021)	69	—	5,513	(2)	(2)
Obligations of states and political subdivisions	2,898	—	(1)	(1)	—	—	(404)	—	—	2,493	—	—
Manufactured housing	668	—	—	—	—	—	(18)	—	—	650	—	—
Total available-for-sale mortgage-related securities	46,901	(147)	1,376	1,229	4,364	—	(6,137)	(657)	45	(913)	44,832	(166)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	1,252	41	—	41	915	7	(443)	(13)	—	(864)	895	42
Fannie Mae	167	(2)	—	(2)	—	—	(3)	15	—	177	(2)	(2)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	6	—	—	—	—	—	(2)	—	—	4	—	—
Total trading mortgage-related securities	1,425	39	—	39	915	7	(443)	(18)	15	(864)	1,076	40
Other assets:												
Guarantee asset ⁽⁷⁾	1,587	(41)	—	(41)	—	142	—	(118)	—	—	1,570	(41)
	12	(4)	—	(4)	—	—	—	—	—	—	8	(4)

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All other, at fair value

Total other assets 1,599 (45) — (45) — 142 — (118) — — 1,578 (45)

Realized and unrealized (gains) losses

Balance, June 30, 2014	Included in earnings	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level 3 ⁽⁵⁾	Transfers out of Level 3 ⁽⁵⁾	Balance, September 30, 2014	Unrealized (gains) losses still held ⁽⁶⁾
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(in millions)

Liabilities

Other debt, at fair value	\$1,000	\$—	\$—	\$—	\$—	\$—	\$—	\$ (1,000)	\$—	\$—	\$—	\$—
Net derivatives ⁽⁸⁾	58	(66)	—	(66)	—	—	—	19	—	—	11	(49)

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Nine Months Ended September 30, 2014

	Realized and unrealized gains (losses)											
	Balance, January 1, 2014	Included in earnings	Included in other comprehensive income ⁽¹⁾	Total	Purchases	Issues	Sales	Settlements net	Transfers to Level 3 ⁽⁵⁾	Transfers out of Level 3 ⁽⁵⁾	Balance, September 30, 2014	Unrealized gains (losses) still held ⁽⁶⁾
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	\$1,939	\$1	\$3	\$4	\$5,567	\$—	\$(3,086)	\$(79)	\$3	\$(42)	\$4,306	\$—
Fannie Mae	131	—	(4)	(4)	48	—	(55)	(15)	1	—	106	—
Ginnie Mae	12	—	—	—	—	—	(6)	(3)	1	—	4	—
CMBS	3,109	—	269	269	—	—	—	(26)	—	—	3,352	—
Subprime	27,499	(456)	2,556	2,100	—	—	(5,628)	(1,270)	—	—	22,701	(582)
Option ARM	6,574	(41)	174	133	—	—	(791)	(209)	—	—	5,707	(72)
Alt-A and other	8,706	86	232	318	—	—	(3,409)	(102)	—	—	5,513	(33)
Obligations of states and political subdivisions	3,495	1	71	72	1	—	(13)	(1,062)	—	—	2,493	—
Manufactured housing	684	—	21	21	—	—	—	(55)	—	—	650	—
Total available-for-sale mortgage-related securities	52,149	(409)	3,322	2,913	5,616	—	(12,988)	(2,821)	5	(42)	44,832	(687)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	343	26	—	—	—	—	—	—	—	—	—	—