Steel Excel Inc.
Form 10-Q
November 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý 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

o 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 0-15071

Steel Excel Inc.
(Exact name of Registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	94-2748530 (I.R.S. Employer Identification No.)
1133 WESTCHESTER AVENUE, SUITE N222 WHITE PLAINS, NEW YORK (Address of principal executive offices)	10604 (Zip Code)

Registrant's telephone number, including area code (914) 461-1300

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 ý 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 ý 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 definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer o Accelerated filer ý Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No ý

As of October 31, 2014, there were 11,410,657 shares of Steel Excel's common stock outstanding.

TABLE OF CONTENTS

Part I.	Financial Statements	
Item 1.	Unaudited Consolidated Financial Statements	
	Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2014 and 2013	3
	Consolidated Statements of Comprehensive Income (Loss) for the three- and nine-month periods ended September 30, 2014 and 2013	4
	Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013	5
	Consolidated Statement of Stockholders' Equity for the nine-month period ended September 30, 2014	6
	Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2014 and 2013	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 4.	Controls and Procedures	29
Part II.	Other Information	
Item 6.	Exhibits	31
Signatures		32

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Steel Excel Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per-share data)			
Net revenues	$58,583	$ 31,420	$ 155,666	$86,532
Cost of revenues	40,599	23,340	111,095	62,061
Gross profit	17,984	8,080	44,571	24,471
Operating expenses:				
Selling, general and administrative expenses	9,531	5,146	27,075	16,204
Amortization of intangibles	2,273	1,985	7,347	6,616
Total operating expenses	11,804	7,131	34,422	22,820
Operating income	6,180	949	10,149	1,651
Interest income, net	554	472	1,763	2,341
Other income (expense), net	(1,299)	1,467	2,283	1,408
Income from continuing operations before income taxes and equity method loss	5,435	2,888	14,195	5,400
Benefit from (provision for) income taxes	(1,537)	297	1,059	2,314
Loss from equity method investees, net of taxes	(4,843)	(138)	(3,402)	(218)
Net income (loss) from continuing operations	(945)	3,047	11,852	7,496
Loss from discontinued operations, net of taxes	—	(888)	—	(1,477)
Net income (loss)	(945)	2,159	11,852	6,019
Net loss (income) attributable to non-controlling interests in				

consolidated entities				
Continuing operations	(238)	(178)	99	(122)
Discontinued operations	—	489	—	954
Net income (loss) attributable to Steel Excel Inc.	$(1,183)	$ 2,470	$ 11,951	$6,851
Basic income (loss) per share attributable to Steel Excel Inc.:				
Net income (loss) from continuing operations	$(0.10)	$ 0.23	$ 1.02	$0.58
Loss from discontinued operations, net of taxes	$—	$ (0.03)		

	At or For the Year Ended December 31,				
(dollars in millions, except share-related amounts)	2015	2014	2013	2012	2011
Statements of Comprehensive Income Data					
Net interest income	$14,946	$14,263	$16,468	$ 17,611	$18,397
(Provision) benefit for credit losses	2,665	(58)	2,465	(1,890)	(10,702)
Non-interest income (loss)	(3,599)	(113)	8,519	(4,083)	(10,878)
Non-interest expense	(4,738)	(3,090)	(2,089)	(2,193)	(2,483)
Income tax (expense) benefit	(2,898)	(3,312)	23,305	1,537	400
Net income (loss)	6,376	7,690	48,668	10,982	(5,266)
Comprehensive income (loss)	5,799	9,426	51,600	16,039	(1,230)
Net loss attributable to common stockholders	(23)	(2,336)	(3,531)	(2,074)	(11,764)
Net loss per common share - basic and diluted	(0.01)	(0.72)	(1.09)	(0.64)	(3.63)
Cash dividends per common share	—	—	—	—	—
Weighted average common shares outstanding - basic and diluted (in millions)	3,235	3,236	3,238	3,240	3,245
Balance Sheets Data					
Loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,625,184	$1,558,094	$1,529,905	$ 1,495,932	$1,564,131
Total assets	1,986,050	1,945,539	1,966,061	1,989,856	2,147,216
Debt securities of consolidated trusts held by third parties	1,556,121	1,479,473	1,433,984	1,419,524	1,471,437
Other Debt	414,306	450,069	506,767	547,518	660,546

All other liabilities	12,683	13,346	12,475	13,987	15,379
Total stockholders' equity (deficit)	2,940	2,651	12,835	8,827	(146)
Portfolio Balances - UPB					
Mortgage-related investments portfolio	$346,911	$408,414	$461,024	$ 557,544	$653,313
Total Freddie Mac mortgage-related securities	1,729,493	1,637,086	1,592,511	1,562,040	1,624,684
Total mortgage portfolio	1,941,587	1,910,106	1,914,661	1,956,276	2,075,394
TDRs on accrual status	82,347	82,908	78,708	66,590	45,254
Non-accrual loans	22,649	33,130	43,457	63,005	76,575
Ratios					
Return on average assets	0.3 %	0.4 %	2.5 %	0.5 %	(0.2)%
Allowance for loan losses as percentage of loans, held-for-investment	0.9	1.3	1.4	1.8	2.2
Equity to assets	0.1	0.4	0.5	0.2	—

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

KEY ECONOMIC INDICATORS

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

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

(December 2000 = 100)

EFFECT ON FINANCIAL RESULTS

- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency rates.
- As home prices decline, the severity of losses we incur on defaulted loans that we hold or guarantee increases because the amount we can recover from the property securing the loan decreases.
- Declines in home prices typically result in increases in expected credit losses on the mortgage-related securities we hold.
- Declines in home prices may result in declines in the value of our non-agency mortgage-related securities as lower home values may increase default rates and affect the prepayment activities of the borrowers.

COMMENTARY

- Home prices continued to appreciate during 2015, increasing 6.2%, compared to an increase of 5.2% during 2014, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.
- National home prices at the end of 2015 remained approximately 6% below their June 2006 peak levels, based on our index.
- We expect near-term home price growth rates to moderate gradually and return to growth rates consistent with long-term historical averages of approximately 2% to 5% per year.

INTEREST RATES

KEY MARKET INTEREST RATES AT QUARTER END

EFFECT ON FINANCIAL RESULTS

- The 30-year Primary Mortgage Market Survey ("PMMS") interest rate represents the national average of mortgage rates on new 30-year fixed-rate mortgages. Declines in the PMMS rate typically result in increases in refinancing activity and originations.
- Changes in interest rates affect the fair value of certain of our assets and liabilities, including derivatives, on our consolidated balance sheets measured at fair value on a recurring basis.
- For additional information on the effect of LIBOR swap rates on our financial results, see "Our Business Segments - Investments - Market Conditions."

COMMENTARY

- Mortgage interest rates for 30-year fixed-rate loans are typically closely related to other long-term interest rates such as the 10-year Treasury rate and the 10-year LIBOR rate. When these rates decline, mortgage interest rates for 30-year fixed-rate loans usually also decline.
- Mortgage interest rates, as indicated by the 30-year PMMS rate, increased at the end of 2015. However, the average 30-year PMMS rate was 3.85% in 2015 compared to 4.17% in 2014, resulting in higher refinancing activity and higher overall origination activity during 2015.
- Longer-term interest rates, as indicated by the 10-year LIBOR rate and the 10-year Treasury rate, declined sharply in 2014 but moderated in 2015.
- The Federal Reserve decided in December 2015 to begin raising short-term interest rates but committed to a measured pace of monetary tightening. However, the magnitude and timing of the impact of the Federal Reserve’s action on mortgage and other longer-term rates is uncertain.

UNEMPLOYMENT RATE

UNEMPLOYMENT RATE AND JOB CREATION

Source: U.S. Bureau of Labor Statistics

EFFECT ON FINANCIAL RESULTS

- Changes in the unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Increases in the unemployment rate typically result in higher levels of delinquencies, which often result in an increase in expected credit losses on our total mortgage portfolio.
- Decreases in the unemployment rate typically result in lower levels of delinquencies, which often result in a decrease in expected credit losses on our total mortgage portfolio.

COMMENTARY

- Monthly net new job growth decreased during 2015, but remained above 200,000 per month on average.
- The unemployment rate continued to decline from the peak of 10.0% reached in October 2009.
- We expect the unemployment rate to decline slightly throughout 2016 and 2017.

CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our consolidated financial statements and accompanying notes. See “Critical Accounting Policies and Estimates” for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations and Note 1 for information on our accounting policies.

The table below compares our consolidated results of operations for the past three years.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(dollars in millions)	2015	2014	2013	$	%	$	%
Net interest income	$14,946	$14,263	$16,468	$683	5 %	$(2,205)	(13)%
Benefit (provision) for credit losses	2,665	(58)	2,465	2,723	(4,695)%	(2,523)	(102)%
Net interest income after benefit (provision) for credit losses	17,611	14,205	18,933	3,406	24 %	(4,728)	(25)%
Non-interest income (loss):							
Gains (losses) on extinguishment of debt	(240)	(422)	446	182	(43)%	(868)	(195)%
Derivative gains (losses)	(2,696)	(8,291)	2,632	5,595	(67)%	(10,923)	(415)%
Net impairment of available-for-sale securities recognized in earnings	(292)	(938)	(1,510)	646	(69)%	572	(38)%
Other gains (losses) on investment securities recognized in earnings	508	1,494	301	(986)	(66)%	1,193	396 %
Other income (loss)	(879)	8,044	6,650	(8,923)	(111)%	1,394	21 %
Total non-interest income (loss)	(3,599)	(113)	8,519	(3,486)	3,085 %	(8,632)	(101)%
Non-interest expense:							
Administrative expense	(1,927)	(1,881)	(1,805)	(46)	2 %	(76)	4 %
REO operations (expense) income	(338)	(196)	140	(142)	72 %	(336)	(240)%
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(967)	(775)	(533)	(192)	25 %	(242)	45 %
Other (expense) income	(1,506)	(238)	109	(1,268)	533 %	(347)	(318)%
Total non-interest expense	(4,738)	(3,090)	(2,089)	(1,648)	53 %	(1,001)	48 %
Income before income tax (expense) benefit	9,274	11,002	25,363	(1,728)	(16)%	(14,361)	(57)%
Income tax (expense) benefit	(2,898)	(3,312)	23,305	414	(13)%	(26,617)	(114)%
Net income	6,376	7,690	48,668	(1,314)	(17)%	(40,978)	(84)%
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(577)	1,736	2,932	(2,313)	(133)%	(1,196)	(41)%
Comprehensive income	$5,799	$9,426	$51,600	$(3,627)	(38)%	$(42,174)	(82)%

Key Drivers:

- Net interest income increased in 2015 compared to 2014, primarily due to an increase in management and guarantee fee income and amortization of upfront fees and basis adjustments as a result of higher prepayment rates. This increase was partially offset by a reduction in the amount of contractual net interest income derived from our mortgage-related investments portfolio, as this portfolio has continued to decline pursuant to the portfolio limits established by the Purchase Agreement and by FHFA. Net interest income decreased in 2014 compared to 2013, primarily due to a reduction in our mortgage-related investments portfolio and less amortization of upfront fees and basis adjustments as a result of lower prepayment rates. See “Net Interest Income” for more information.
- Benefit (provision) for credit losses was a benefit in 2015 and was driven by the reclassification of loans from held-for-investment to held-for-sale. Excluding the effect of the reclassification of loans,

the amount of our benefit was not significant. The (provision) for credit losses in 2014 reflects a decline in the volume of newly impaired loans and a smaller benefit from settlement agreements with certain sellers to release specified loans from certain repurchase obligations in 2014 compared to 2013. See "Benefit (Provision) For Credit Losses" for more information.

- Gains (losses) on extinguishment of debt in 2015, 2014, and 2013 primarily resulted from purchases of single-family PCs (which are accounted for as the extinguishment of debt). We extinguished debt securities of consolidated trusts with a UPB of $54.6 billion, $49.2 billion, and $44.4 billion in 2015, 2014, and 2013, respectively. Losses in 2015 and 2014 were driven by interest rate declines between the time of issuance and the time of repurchase of these debt securities.
- Changes in derivative gains (losses) primarily resulted from changes in interest rates. In 2015, longer-term interest rates declined less than they did in 2014, and resulted in lower fair value losses. Derivative losses also include the accrual of periodic cash settlements, which is the net amount we accrued during the period for interest-rate swap payments that we will make. In 2014, derivative losses primarily resulted from the effect of a flattening of the yield curve on the fair value of our interest-rate swaps. See "Derivative Gains (Losses)" for more information.
- Net impairments of available-for-sale securities recognized in earnings declined in 2015 compared to 2014 because the unrealized losses associated with securities we intend to sell were lower due to improvements in forecasted home prices, declines in market interest rates, and continued tightening of credit spreads for our non-agency mortgage-related securities. Net impairments of available-for-sale securities recognized in earnings declined in 2014 compared to 2013 primarily as a result of increased impairments in 2013 due to the availability of more detailed information which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing our non-agency mortgage-related securities. See "Conservatorship And Related Matters - Limits On Our Mortgage-Related Investments Portfolio And Indebtedness" for additional information concerning our efforts to reduce our less liquid assets.
- Other gains (losses) on investment securities recognized in earnings. The decrease in gains in 2015 compared to 2014 was primarily due to a decrease in sales of agency mortgage-related securities. The increase in gains in 2014 compared to 2013 was primarily the result of the effect of a decline in longer-term interest rates on the fair values of our trading securities.
- Changes in other income (loss) were primarily driven by non-agency mortgage-related securities settlements, lower-of-cost-or-fair-value adjustments for mortgage loans transferred to held-for-sale, and changes in fair value of multifamily mortgage loans for which we have elected the fair value option, as discussed below.

The change between 2015 and 2014 was primarily driven by:

$6.0 billion decline in income from non-agency mortgage-related securities litigation settlements, as there was only one settlement in 2015;

$2.0 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale (see "Effect of Loan Reclassifications" for more information); and

$0.7 billion decline in the fair value of these multifamily mortgage loans, due to the widening of K Certificate benchmark spreads observed in the market.

The change between 2014 and 2013 was primarily driven by:

$0.6 billion increase in income from non-agency mortgage-related securities settlements, as the majority of such settlements occurred in 2014;
$1.6 billion increase in the fair value of these multifamily mortgage loans, due to the tightening of K Certificate benchmark spreads observed in the market; and
$0.2 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale.

- Administrative expense increased in 2015 and 2014 primarily because of costs associated with the FHFA-mandated termination of our pension plans. This increase was partially offset by lower professional services expense driven by lower expenses associated with FHFA-led lawsuits regarding our investments in certain non-agency mortgage-related securities.
- REO operations expense increased in 2015 and 2014 compared to the respective prior year. REO property expenses declined in 2015 and 2014, consistent with a decline in REO inventory in each year. However, the REO property expenses were offset to a lesser extent by gains on the disposition of REO properties and recoveries from mortgage insurance, compared to the respective prior year.
- Temporary Payroll Tax Cut Continuation Act of 2011 expense continued to increase as a result of the increase in the population of loans subject to this expense. As of December 31, 2015, $1.1 trillion of loans (or 63% of the single-family credit guarantee portfolio) were subject to these fees. We expect the amount of these fees will continue to increase in the future as we add new business and the population of loans subject to these fees increases.
- Other expense increased during 2015 compared to 2014, primarily driven by property taxes and insurance costs associated with loans reclassified from held-for-investment to held-for-sale. These costs are considered part of the loan loss reserves while the loans are classified as held-for-investment. See "Effect of Loan Reclassifications" for more information. In addition, beginning January 1, 2015, FHFA directed us to allocate funds that will be distributed to certain housing funds pursuant to the GSE Act. During 2015, we completed $393.8 billion of new business purchases subject to this allocation and accrued $165 million of related expense. We expect to pay these amounts in February 2016. Other expense increased during 2014 compared to 2013, due to a settlement with Lehman Brothers Holdings Inc. to resolve our claims related to Lehman's bankruptcy which reduced other expenses in 2013.
- Income tax expense decreased in 2015 due to a decrease in pre-tax income. Income tax expense in 2014 reflects our return to a normal income tax recognition environment after the release of the valuation allowance against our net deferred tax asset in 2013.
- Other comprehensive income was a loss in 2015 compared to income in 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI into earnings. These factors were partially offset by a lower amount of accretion being recognized during 2015 compared to 2014. Other comprehensive income decreased during 2014 compared to 2013, primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve during 2014.

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

Effect of Loan Reclassifications

In 2014, management, with the approval of FHFA, decided to pursue sales of certain seriously delinquent single-family mortgage loans. During 2015, we expanded this program to include sales of certain

performing loans that are held by consolidated trusts in which we own all of the trusts' outstanding beneficial interests. During 2015 and 2014, we reclassified $13.6 billion and $0.7 billion, respectively, in UPB of single-family mortgage loans from held-for-investment to held-for-sale. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

	Year Ended December 31,	
(in millions)	2015	2014
Benefit for credit losses	$2,314	$147
Other income (loss) - lower-of-cost-or-fair-value adjustment	(2,193)	(195)
Other (expense) income - property taxes and insurance associated with these loans	(1,178)	(62)
Effect on income before income tax (expense) benefit	$(1,057)	$(110)

Interest-Rate Risk Management Activities

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

We use derivatives to economically hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, depending on our strategic objectives and the duration of our mortgage-related assets, we may fund our business using longer-term debt or using a mix of derivatives and shorter- and medium-term debt. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. For more information about our interest-rate risk management and the sensitivity of reported earnings to our interest-rate risk management activities, see “Risk Management - Interest Rate Risk and Other Market Risk.”

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

While our interest-rate risk management activities reduce our economic exposure to interest-rate risk to a low level, as measured by our models, the accounting treatment for our assets and liabilities, including derivatives, creates volatility in our earnings when interest rates fluctuate. Some assets and liabilities are measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. These measurement differences create volatility in our earnings that generally is not indicative of the underlying economics of our business.

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

(in billions)	Year Ended December 31, 2015	2014	2013
Components of derivative gains (losses)			
Derivative gains (losses)	$(2.7)	$(8.3)	$2.6
Less: Accrual of periodic cash settlements	(2.2)	(2.6)	(3.5)
Derivative fair value changes	$(0.5)	$(5.7)	$6.1
Estimated Net Interest Rate Effect			
Interest rate effect on derivative fair values	$(0.5)	$(5.5)	$5.9
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	0.2	2.0	(4.0)
Income tax benefit (expense)	0.1	1.2	(0.7)
Estimated Net Interest Rate Effect on Comprehensive income	$(0.2)	$(2.3)	$1.2

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

Effects of Changes in Asset Spreads

Comprehensive income was impacted by an estimated $(0.1) billion, $2.0 billion, and $2.5 billion (after-tax) for 2015, 2014, and 2013, respectively, due to the impact of credit spread tightening (widening) on certain mortgage loans and mortgage-related securities measured at fair value.

NET INTEREST INCOME
EXPLANATION OF KEY DRIVERS OF NET INTEREST INCOME

Net interest income consists of several primary components:

- Contractual net interest income - consists of two primary components:
  - The difference between the interest income earned on the assets in our investments portfolio and the interest expense incurred on the liabilities used to fund those assets; and
  - Management and guarantee fees on loans held by consolidated trusts. We record interest income on loans held by consolidated trusts and interest expense on the debt securities issued by the trusts. The difference between the interest income on the loans and the interest expense on the debt represents the management and guarantee fee income we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. This difference includes the legislated 10 basis point increase in management and guarantee fees that is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011.

Contractual net interest income is primarily driven by the volume of assets in the mortgage-related investments and guarantee portfolios and the interest rate differential between those interest-earning assets and the related interest-bearing liabilities.

- Amortization of cost basis adjustments - consists of cost basis adjustments, such as premiums and discounts on loans, investment securities, and debt that are amortized into interest income or interest expense based on the effective yield over the contractual life of the associated financial instrument.

The majority of our total net amortization relates to loans and debt securities of consolidated trusts, while amortization related to investment securities, other debt, and other assets and liabilities makes up a smaller portion. The net amortization of loans and debt securities of consolidated trusts is primarily driven by actual prepayments on the underlying loans.

Net amortization of loans and debt securities of consolidated trusts generally increases net interest income as it includes amortization of the upfront delivery fees we receive when we acquire a loan. Increases in actual prepayments result in higher net amortization, while decreases in actual prepayments result in lower net amortization. The timing of amortization of loans may differ from the timing of amortization of the securities backed by the loans, as the proceeds received from the loans backing these securities are remitted to the security holders at a date subsequent to the date proceeds from the loans are received.

- Expense related to derivatives - consists of deferred gains and losses on closed cash flow hedges related to forecasted debt issuances that are reclassified from AOCI to net interest income when the related forecasted transaction affects net interest income.

NET INTEREST YIELD ANALYSIS

The table below presents an analysis of interest-earning assets and interest-bearing liabilities. Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in the average balances.

	Year Ended December 31,								
	2015			2014			2013		
(dollars in millions)	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
Interest-earning assets:									
Cash and cash equivalents	$12,482	$8	0.06 %	$13,889	$4	0.03 %	$31,087	$15	0.05 %
Securities purchased under agreements to resell	51,380	62	0.12	42,905	28	0.06	44,897	36	0.08
Mortgage-related securities:									
Mortgage-related securities	226,162	8,706	3.85	256,548	10,027	3.91	313,707	12,787	4.08
Extinguishment of PCs held by Freddie Mac	(107,986)	(3,929)	(3.64)	(111,545)	(4,190)	(3.76)	(127,999)	(5,045)	(3.94)
Total mortgage-related securities, net	118,176	4,777	4.04	145,003	5,837	4.03	185,708	7,742	4.17
Non-mortgage-related securities	10,699	17	0.16	9,983	6	0.06	21,385	26	0.12
Loans held by consolidated trusts(1)	1,590,768	55,867	3.51	1,540,570	57,036	3.70	1,511,128	57,189	3.78
Loans held by Freddie Mac(1)	157,261	6,359	4.04	170,017	6,569	3.86	203,760	7,694	3.78
Total interest-earning assets	$1,940,766	$67,090	3.46	$1,922,367	$69,480	3.61	$1,997,965	$72,702	3.63
Interest-bearing liabilities:									
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,611,388	$(49,465)	(3.07)	$1,557,895	$(52,193)	(3.35)	$1,532,032	$(52,395)	(3.42)
Extinguishment of PCs held by Freddie Mac	(107,986)	3,929	3.64	(111,545)	4,190	3.76	(127,999)	5,045	3.94
Total debt securities of consolidated trusts	1,503,402	(45,536)	(3.03)	1,446,350	(48,003)	(3.32)	1,404,033	(47,350)	(3.37)

held by third parties									
Other debt:									
Short-term debt	108,096	(173)	(0.16)	118,211	(145)	(0.12)	132,674	(178)	(0.13)
Long-term debt	313,502	(6,207)	(1.98)	331,887	(6,768)	(2.04)	393,094	(8,251)	(2.10)
Total other debt	421,598	(6,380)	(1.51)	450,098	(6,913)	(1.54)	525,768	(8,429)	(1.60)
Total interest-bearing liabilities	1,925,000	(51,916)	(2.70)	1,896,448	(54,916)	(2.89)	1,929,801	(55,779)	(2.89)
Expense related to derivatives	—	(228)	(0.01)	—	(301)	(0.02)	—	(455)	(0.02)
Impact of net non-interest-bearing funding	15,766	—	0.02	25,919	—	0.04	68,164	—	0.10
Total funding of interest-earning assets	$1,940,766	$(52,144)	(2.69)	$1,922,367	$(55,217)	(2.87)	$1,997,965	$(56,234)	(2.81)
Net interest income/yield		$14,946	0.77 %		$14,263	0.74 %		$16,468	0.82 %

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income for loans held by consolidated trusts were $2.0 billion, $1.4 billion, and $1.2 billion, respectively, and were $383 million, $373 million, and $294 million in 2015, 2014, and 2013, respectively, for loans held by Freddie Mac.

NET INTEREST INCOME RATE / VOLUME ANALYSIS

The table below presents a rate and volume analysis of our net interest income. Our net interest income reflects the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.

	2015 vs. 2014 Variance Due to			2014 vs. 2013 Variance Due to		
(in millions)	Rate	Volume	Total Change	Rate	Volume	Total Change
Interest-earning assets:						
Cash and cash equivalents	$6	$(2)	$4	$(5)	$(6)	$(11)
Securities purchased under agreements to resell	24	10	34	(7)	(1)	(8)
Mortgage-related securities:						
Mortgage-related securities	(149)	(1,172)	(1,321)	(508)	(2,252)	(2,760)
Extinguishment of PCs held by Freddie Mac	129	132	261	229	626	855
Total mortgage-related securities, net	(20)	(1,040)	(1,060)	(279)	(1,626)	(1,905)
Non-mortgage-related securities	11	—	11	(10)	(10)	(20)
Loans held by consolidated trusts	(2,991)	1,822	(1,169)	(1,256)	1,103	(153)
Loans held by Freddie Mac	297	(507)	(210)	175	(1,300)	(1,125)
Total interest-earning assets	$(2,673)	$283	$(2,390)	$(1,382)	$(1,840)	$(3,222)
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$4,476	$(1,748)	$2,728	$1,079	$(877)	$202
Extinguishment of PCs held by Freddie Mac	(129)	(132)	$(261)	(229)	(626)	$(855)
Total debt securities of consolidated trusts held by third parties	4,347	(1,880)	$2,467	850	(1,503)	(653)
Other debt:						
Short-term debt	(41)	13	(28)	15	18	33
Long-term debt	193	368	561	229	1,254	1,483
Total other debt	152	381	533	244	1,272	1,516
Total interest-bearing liabilities	4,499	(1,499)	3,000	1,094	(231)	863
Expense related to derivatives	73	—	73	154	—	154
Total funding of interest-earning assets	$4,572	$(1,499)	$3,073	$1,248	$(231)	$1,017
Net interest income	$1,899	$(1,216)	$683	$(134)	$(2,071)	$(2,205)

COMPONENTS OF NET INTEREST INCOME

The table below presents the components of net interest income.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(in millions)	2015	2014	2013	$	%	$	%
Contractual net interest income:							
Management and guarantee fee income	$2,722	$2,399	$2,111	$323	13 %	$288	14 %
Management and guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	957	759	519	198	26 %	240	46 %
Other contractual net interest income	8,106	9,070	11,484	(964)	(11)%	(2,414)	(21)%
Total contractual net interest income	11,785	12,228	14,114	(443)	(4)%	(1,886)	(13)%
Net amortization - loans and debt securities of consolidated trusts	2,883	1,913	2,791	970	51 %	(878)	(31)%
Net amortization - other assets and debt	506	423	18	83	20 %	405	2,250 %
Expense related to derivatives	(228)	(301)	(455)	73	(24)%	154	(34)%
Net interest income	$14,946	$14,263	$16,468	$683	5 %	$(2,205)	(13)%

Key Drivers:

- Management and guarantee fee income increased during 2015, compared to 2014 and 2013, as the rates and volume of our guarantee businesses increased. Specifically, management and guarantee fee rates received on new business are higher than the rates received on older vintages that continue to pay-down. Furthermore, the size of our single-family credit guarantee portfolio continues to grow as we continue to securitize single-family loans into PCs. The increase in management and guarantee fee income, combined with a decline in our other contractual net interest income, resulted in management and guarantee fee income becoming a larger component of our contractual net interest income. We expect this trend to continue in the future. See the Single-family Guarantee segment's "Business Results" section in "Our Business Segments" for additional discussion.
- Other contractual net interest income declined in 2015 and 2014, primarily due to the reduction in the balance of our mortgage-related investments portfolio, as we continue to manage the size and composition of this portfolio pursuant to the limits established by the Purchase Agreement and by FHFA. Although we reinvested a portion of the proceeds received from pay-downs and dispositions, the new mortgage-related assets we acquired have lower yields as a result of a lower interest rate environment. We expect our other contractual net interest income to continue to decline in the near future as we reduce our mortgage-related investments portfolio. See "Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness" for additional discussion of the limits on the mortgage-related investments portfolio.
- Net amortization of loans and debt securities of consolidated trusts increased in 2015 compared to 2014 due to an increase in the amortization of upfront fees and basis adjustments on debt securities of consolidated trusts. This increase was primarily driven by higher prepayment rates on single-family loans in 2015 compared to 2014. Conversely, net amortization of loans and debt securities of consolidated trusts was lower in 2014 compared to 2013, due to slower prepayment rates on single-family loans and timing differences between the amortization of the loan and debt securities basis adjustments.

BENEFIT (PROVISION) FOR CREDIT LOSSES
EXPLANATION OF KEY DRIVERS OF PROVISION FOR CREDIT LOSSES

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

- Collectively impaired loans - The provision for collectively impaired loans is primarily driven by the volume of newly delinquent loans and changes in estimated probabilities of default and estimated loss severities for the loans. Estimated probabilities of default and estimated loss severities are based on current conditions and historical data and are heavily influenced by changes in home prices, but are also affected by a number of other factors, such as local and regional economic conditions, changes in reperformance and default rates, and the success of our borrower assistance programs.
- Individually impaired loans - The provision for individually impaired loans is primarily driven by the volume of our loss mitigation activity (e.g., loan modifications) that results in loans being considered TDRs, the payment performance of our individually impaired mortgage portfolio, and changes in estimated probabilities of default and estimated loss severities, which affect the future cash flows we expect to receive from these loans. Estimated probabilities of default and estimated loss severities for individually impaired loans are based on the same current conditions and historical data and are affected by the same factors noted above for collectively impaired loans.

As we continue to perform loss mitigation activities that result in loans being considered individually impaired, the portion of our allowance for loan losses and provision for credit losses related to collectively impaired loans continues to decline.

Our allowance for loan losses and provision for credit losses are significantly affected by the "interest rate concessions" we make on loans that we have modified (i.e., reductions in the contractual interest rate). When a loan is modified and considered individually impaired, we generally measure impairment based on the present value of the expected future cash flows discounted at the loan’s original effective interest rate. Under this methodology, we record a loss at the time a loan is modified equal to the difference in the present value of expected cash flows resulting from the change in the modified loan’s contractual interest rate, which increases the provision for credit losses in that period. When a modified loan subsequently performs according to its new contractual terms and we receive the new contractual cash flows (i.e., principal and interest payments), a portion of the discount that was previously applied to those cash flows is amortized into earnings each period and is recognized as a reduction in the provision for credit losses in the period in which the cash flows are received. We refer to this reduction in the provision for credit losses as the "amortization of interest rate concessions."

Our provision for credit losses and the amount of charge-offs that we record in the future will be affected by a number of factors, such as the actual level of loan defaults; the effect of loss mitigation efforts; any government actions or programs that affect the ability of borrowers to refinance loans with an LTV ratio greater than 100% or obtain modifications; changes in property values; regional economic conditions, including unemployment rates; additional delays in the foreclosure process; and third-party mortgage insurance coverage and recoveries.

BENEFIT (PROVISION) FOR CREDIT LOSSES

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

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(dollars in billions)	2015	2014	2013	$	%	$	%
Provision for newly impaired loans	$(0.9)	$(1.7)	$(2.5)	$0.8	47%	$0.8	32%
Amortization of interest rate concessions	1.2	1.4	1.0	(0.2)	(14)%	0.4	40%
Reclassifications of held-for-investment loans to held-for-sale loans	2.3	0.1	—	2.2	2,200%	0.1	N/A
Other, including changes in estimated default probability and loss severity	0.1	0.1	4.0	—	—%	(3.9)	(98)%
Benefit (provision) for credit losses	$2.7	$(0.1)	$2.5	$2.8	2,800%	$(2.6)	(104)%

Key Drivers:

- The main driver of the benefit for credit losses in 2015 was the reclassifications of loans from held-for-investment to held-for sale in connection with our efforts to sell seriously delinquent single-family loans. See "Effect of Loan Reclassifications" for the effect of these loan reclassifications on pre-tax net income.
- The provision for newly impaired loans decreased in 2015 and 2014 due to declines in the volume of newly delinquent single-family loans in both years.
- The benefit (provision) for credit losses in 2014 and 2013 reflect benefits of $0.3 billion and $1.7 billion, respectively, related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments primarily associated with our Legacy single-family book.

DERIVATIVE GAINS (LOSSES)
EXPLANATION OF KEY DRIVERS OF DERIVATIVE GAINS (LOSSES)

Derivative instruments are a key component of our interest-rate risk management strategy. We use derivatives to economically hedge our interest-rate risk exposure. We primarily use interest-rate swaps, option-based derivatives such as swaptions, and futures to manage our exposure to changes in interest-rates. We consider the cost of derivatives used in interest-rate risk management to be an inherent part of the cost of funding our mortgage-related investments portfolio.

In addition, while not part of our interest-rate risk management activities, we routinely enter into commitments to purchase and sell loans and mortgage-related securities. The majority of these commitments are accounted for as derivative instruments.

Derivative gains (losses) consist of both fair value changes and accrual of periodic cash settlements:

- Fair value changes - Represent changes in the fair value of our derivatives based on market conditions at the end of the period or at the time the derivative instrument is terminated. These amounts may or may not be realized over time, depending on future changes in market conditions and the terms of our derivative instruments.
- Accrual of periodic cash settlements - Consists of the net amount we accrue during a period for interest-rate swap payments that we will make or receive. This accrual represents the ongoing cost of our hedging activities, and is economically equivalent to interest expense.

Gains and losses on derivatives are affected by a number of factors, including:

- Changes in interest rates - Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. With a pay-fixed interest-rate swap, we pay a fixed rate of interest and receive a variable rate of interest based on a specified notional balance (the notional balance is for calculation purposes only). With a pay-fixed interest-rate swap, as interest rates decline, we recognize derivative losses, as the amount of interest we pay remains fixed, and the amount of interest we receive declines. As rates rise, we recognize derivative gains, as the amount of interest we pay remains fixed, but the amount of interest we receive increases. With a receive-fixed interest-rate swap, the opposite results occur.
- Implied volatility - Many of our assets and liabilities have embedded prepayment options. We use option-based derivatives, including swaptions, to economically hedge the prepayment options embedded in our mortgage assets and callable debt. Fair value gains and losses on swaptions are sensitive to changes in both interest rates and implied volatility, which reflects the market's expectation of future changes in interest rates. Assuming all other factors are unchanged, including interest rates, purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases, with the opposite being true for written swaptions.
- Changes in the shape of the yield curve - We own assets and have outstanding debt with different cash flows along the yield curve. We use derivatives to hedge the yield exposure of assets and debt, resulting in derivatives with different maturities. As a result, changes in the shape of the yield curve will affect our derivative gains (losses).

- Changes in the composition of our derivative portfolio - The mix and balance of our derivative portfolio changes from period to period as we enter into or terminate derivative instruments to respond to changes in interest rates and changes in the balances and modeled characteristics of our assets and liabilities. Changes in the composition of our derivative portfolio will affect the derivative gains and losses we recognize in a given period, thereby affecting the volatility of comprehensive income.

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

COMPONENTS OF DERIVATIVE GAINS (LOSSES)

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

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(in millions)	2015	2014	2013	$	%	$	%
Fair value changes:							
Change in interest-rate swaps	$(778)	$(7,294)	$8,598	$6,516	(89)%	$(15,892)	(185)%
Change in option-based derivatives	258	1,437	(2,422)	(1,179)	(82)	3,859	(159)
Accrual of periodic cash settlements	(2,198)	(2,625)	(3,467)	427	(16)	842	(24)
Other	22	191	(77)	(169)	(88)	268	(348)
Derivative gains (losses)	$(2,696)	$(8,291)	$2,632	$5,595	(67)%	$(10,923)	(415)%

Key Drivers:

- We recognized derivative losses in 2015 primarily from the accrual of periodic cash settlements. Fair value changes were less significant in 2015, as interest rates declined slightly.
- We recognized derivative losses in 2014 primarily as a result of the impact of a flattening yield curve as shorter-term interest rates increased and longer-term interest rates declined during 2014.
- We recognized derivative gains in 2013 primarily as a result of an increase in longer-term interest rates.

OTHER COMPREHENSIVE INCOME (LOSS)
EXPLANATION OF KEY DRIVERS OF OTHER COMPREHENSIVE INCOME (LOSS)

Our investments in securities classified as available-for-sale are measured at fair value on our consolidated balance sheets. The fair value of these securities is primarily affected by changes in interest rates, credit spreads, and the movement of these securities towards maturity. All unrealized gains and losses on these securities are excluded from earnings and reported in other comprehensive income until realized. We reclassify our unrealized gains and losses from AOCI to earnings upon the sale of the securities or if the securities are determined to be other-than-temporarily impaired.

If, subsequent to the recognition of other-than-temporary impairment, our expectation of the cash flows we will receive on a previously impaired security has significantly increased, we will accrete that increase in cash flows into the security's amortized cost basis and use the new amortized cost basis for future impairment evaluation. The increased amortized cost basis will generally reduce the amount of unrealized gains that we would have otherwise recognized if not for the accretion.

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

	Year Ended December 31,		
(in millions)	2015	2014	2013
Other comprehensive income, excluding accretion and reclassifications	$374	$2,563	$3,167
Accretion due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(449)	(519)	(339)
Reclassifications from AOCI	(502)	(308)	104
Total other comprehensive income (loss)	$(577)	$1,736	$2,932

Key Drivers:

- Other comprehensive income was a loss in 2015 compared to income in 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI into earnings. Other comprehensive income declined during 2014 compared to 2013, primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve.
- We recognized lower unrealized gains as a result of our accretion of the increase in expected cash flows to the amortized cost basis of the previously-impaired available-for-sale securities in all periods presented. Accretion was higher during 2015 and 2014 compared to 2013, as a result of improving collateral performance and declining longer-term interest rates.
- We reclassified unrealized gains and losses from AOCI to earnings as a result of our sales of available-for-sale mortgage-related securities in all periods presented. During 2015 and 2014, we reclassified net unrealized gains as a result of improved pricing due to declining longer-term interest rates and stabilized collateral performance. Conversely, during 2013, we reclassified net unrealized losses as a result of rising longer-term interest rates.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

	December 31,			
(dollars in millions)	2015	2014	$ Change	% Change
Assets:				
Cash and cash equivalents	$5,595	$10,928	$(5,333)	(49)%
Restricted cash and cash equivalents	14,533	8,535	5,998	70
Securities purchased under agreements to resell	63,644	51,903	11,741	23
Investments in securities	114,215	136,987	(22,772)	(17)
Mortgage loans, net	1,754,193	1,700,580	53,613	3
Accrued interest receivable	6,074	6,034	40	1
Derivative assets, net	395	822	(427)	(52)
Real estate owned, net	1,725	2,558	(833)	(33)
Deferred tax assets, net	18,205	19,498	(1,293)	(7)
Other assets	7,471	7,694	(223)	(3)
Total assets	$1,986,050	$1,945,539	$40,511	2%
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$6,183	$6,325	$(142)	(2)%
Debt, net	1,970,427	1,929,542	40,885	2
Derivative liabilities, net	1,254	1,963	(709)	(36)
Other liabilities	5,246	5,058	188	4
Total liabilities	1,983,110	1,942,888	40,222	2
Total equity	2,940	2,651	289	11
Total liabilities and equity	$1,986,050	$1,945,539	$40,511	2%

Key Drivers:

- Cash and cash equivalents, restricted cash and cash equivalents, and securities purchased under agreements to resell affect one another, so the changes in the balances should be viewed together. For example, cash and cash equivalents and restricted cash and cash equivalents can be invested in securities purchased under agreements to resell or other investments in securities (i.e., non-mortgage-related securities). The drivers of the increase in the combined balance are higher near-term cash needs for upcoming maturities and anticipated calls of other debt, and an increase in principal and interest payments received from servicers for unsecuritized mortgage loans owned by us.
- Investments in securities continued to decline as we continued to reduce the less liquid assets in our mortgage-related investments portfolio, partially offset by increases in Treasury securities for upcoming maturities and anticipated calls of other debt.
- Mortgage loans, net increased, driven by an increase in acquisitions of purchase money loans, which resulted from higher volumes of home sales and home price appreciation.
- Real estate owned, net continued to decline as we continued to sell our existing inventory and the pace of new REO acquisitions slowed as our population of seriously delinquent loans declined.
- Deferred tax assets, net declined primarily due to the reduction of deferred differences related to the allowance for loan losses and credit-related items.

- Debt, net increased as debt securities of consolidated trusts held by third parties rose as a result of the increase in the acquisition and securitization of mortgage loans in 2015 due to higher volumes of home sales and home price appreciation. This increase in debt securities of consolidated trusts held by third parties was partially offset by declines in other debt as we continued to reduce our indebtedness along with the decline in our mortgage-related investments portfolio.
- Total equity increased as a result of higher comprehensive income in the fourth quarter of 2015 compared to the fourth quarter of 2014 and was partially offset by dividends paid related to the $600 million decline in the Capital Reserve Amount in 2015.

OUR BUSINESS SEGMENTS

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

Segment	Description	Primary Income Drivers	Primary Expense Drivers
Single-family Guarantee	Reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk	• Management and guarantee fee income	• Credit-related expenses • Administrative expenses
Multifamily	Reflects results from our investment, securitization, and guarantee activities in multifamily loans and securities, and the management of multifamily mortgage credit risk	• Net interest income • Management and guarantee fee income • Gains and losses on loans • Investment gains and losses • Derivative gains and losses	• Gains and losses on loans • Investment gains and losses • Derivative gains and losses • Administrative expenses • Credit-related expenses
Investments	Reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily investments and single-family seriously delinquent loans), treasury function, and interest-rate risk	• Net interest income • Investment gains and losses • Derivative gains and losses	• Other-than-temporary impairments on non-agency mortgage-related securities • Investment gains and losses • Derivative gains and losses • Administrative expenses
All Other	Consists of material corporate level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments	N/A	N/A

SEGMENT EARNINGS

We evaluate segment performance and allocate resources based on a Segment Earnings approach:

- We make significant reclassifications among certain line items in our GAAP financial statements to reflect measures of management and guarantee fee income on guarantees and net interest income on investments that are in line with how we manage our business.
- We allocate certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.
- The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss) and the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive

income (loss).

In the second quarter of 2015, we changed our Segment Earnings definition associated with the expense related to the Temporary Payroll Tax Cut Continuation Act of 2011. As a result of this change, the expense related to the legislated 10 basis point increase is now netted within management and guarantee fee income. The purpose of this change is to better reflect how management evaluates the Single-family

Guarantee segment. Prior period results have been revised to conform to the current period presentation. We reclassified $775 million and $533 million of Temporary Payroll Tax Cut Continuation Act of 2011 expense into management and guarantee fee income for 2014 and 2013, respectively.

Segment Earnings 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. We believe that Segment Earnings provides us with meaningful metrics to assess the financial performance of each segment and our company as a whole. See Note 12 for additional details on Segment Earnings, including additional financial information for our segments.

SEGMENT COMPREHENSIVE INCOME

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

SINGLE-FAMILY GUARANTEE
BUSINESS OVERVIEW

In our Single-family Guarantee segment, we purchase, securitize, and guarantee single-family loans originated by lenders and we manage our single-family mortgage credit risk. Our Single-family Guarantee segment supports our primary business strategies by creating:

A Better Freddie Mac:

- Providing market leadership by delivering quality offerings, programs, and services to an increasingly diversified customer base and an evolving mortgage market;
- Improving the customer experience through continued enhancement of our products, programs, processes, and technology; and
- Establishing efficient risk management activities that are appropriate for the expected level of risk.

A Better Housing Finance System:

- Developing innovative technology platforms to provide sellers and Freddie Mac with better methods of assessing and managing single-family mortgage credit risk;
- Developing and implementing initiatives to reduce taxpayer exposure and offer private investors new and innovative ways to share in the credit risk of the Core single-family book;
- Expanding access to mortgage credit in a responsible manner to support our Charter Mission as well as to meet specific mandated goals;
- Working with FHFA, Fannie Mae, and Common Securitization Solutions, LLC ("CSS") on the development of a new common securitization platform; and
- Implementing the single (common) security initiative for Freddie Mac and Fannie Mae, which is intended to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-related securities.

The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. We participate only in the secondary mortgage market. The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, unemployment rates, homeownership rates, housing prices, the supply of housing, lender preferences regarding credit risk, and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of loans meeting the requirements of our Charter, our own preference for credit risk reflected in our purchase standards, and the loan purchase and securitization activity of other financial institutions.

Products and Activities

Securitization and Guarantee Products

In a typical loan securitization, we purchase loans that lenders originate and then pool these loans into mortgage-related securities that can be sold in the capital markets. We typically guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fee income. We administer the collection of borrowers' payments on their loans and the distribution of payments to the investors in the mortgage-related securities, net of our management and guarantee fee

income. When a borrower prepays a loan that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment. If the borrower becomes delinquent, we continue to make the applicable payments to the investors in the mortgage-related securities pursuant to our guarantee. When that occurs, we work to mitigate our losses through our loan workout programs, which are discussed in more detail in "Risk Management." If we are unable to achieve a successful loan workout, we pursue foreclosure of the underlying property.

We establish trusts for mortgage-related securities we issue pursuant to Master Trust Agreements and serve as trustee for the trusts. We have the option, and in some instances the requirement, to purchase specified loans, including certain delinquent loans, from the trusts at a purchase price equal to the current UPB of the loan, less any outstanding advances of principal that have been previously distributed. For information on an operational risk issue relating to the Master Trust Agreement, see "Risk Management - Operational Risk."

The management and guarantee fee we charge on new acquisitions generally consists of a combination of upfront delivery fees and a base monthly fee paid as a percentage of the UPB of the underlying loan. We may also make upfront payments to buy up the monthly management and guarantee fee rate ("buy-up fees"), or receive upfront payments to buy down the monthly management and guarantee fee rate (“buy-down fees”). These fees are paid in conjunction with the formation of a PC to provide for a uniform coupon rate for the mortgage pool underlying the PC. The payments made to buy up the management and guarantee fee rate are not considered compensation for the credit risk assumed for purposes of our financial statements. Consequently, these amounts are allocated to the Investments segment.

We enter into loan purchase agreements with many of our single-family customers that outline the terms under which we agree to purchase loans from them over a period of time. For the majority of the loans we purchase, the management and guarantee fees are not specified contractually. Instead, we bid for some or all of the lender's loan volume on a monthly basis at a management and guarantee fee rate that we specify. As a result, our loan purchase volumes from individual customers can fluctuate significantly.

We seek to issue guarantees with fee terms that are commensurate with the risks assumed and that will, over the long-term, provide management and guarantee fee income that exceeds the credit-related and administrative expenses on the underlying loans and provide a return on the capital that would be needed to support the related credit risk. We do not have the ability to fully price for our credit risk at the loan level as our base fee does not differentiate by LTV ratio, credit score, and certain other credit-related factors. We must obtain FHFA’s approval to implement across-the-board increases in our management and guarantee fees. To compensate us for higher levels of risk in some loan products, we charge upfront delivery fees above our base fees, which are calculated based on credit risk factors such as the loan product type, loan purpose, LTV ratio, and credit score. While we vary our guarantee and, in certain cases, delivery fee pricing for different customers, loan products, and loan or borrower underwriting characteristics based on our assessment of credit risk, the seller may elect to retain loans with better credit characteristics. The sellers' decisions with respect to loan retention, or sale to us, could result in our purchases having a more adverse credit profile.

In 2012, at FHFA's direction, we increased management and guarantee fees by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this increase are being remitted to Treasury on a quarterly basis to fund the payroll tax cut. We refer to this fee increase as the legislated 10 basis point increase in management and guarantee fees.

As part of our Single-family Guarantee business, we issue the types of guarantee and securitization products described below. In these securitization products, Freddie Mac functions in its capacity as depositor, guarantor, administrator, and trustee.

- PCs - our primary single-family mortgage securitization and guarantee process involves our issuance of single-class PCs, which are pass-through securities that represent undivided beneficial interests in trusts that hold pools of loans. For our fixed-rate PCs, we guarantee the timely payment of principal and interest. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying loans. We also guarantee the full and final payment of principal, but not the timely payment of principal, on ARM PCs.
- Guarantor Swap PCs - we issue most of our PCs in guarantor swap transactions in which our customers provide us with loans in exchange for PCs, as shown in the diagram below:
- Cash PCs - we also issue PCs in transactions in which we purchase performing loans (which we sometimes refer to as a securitization pipeline) and securitize them for retention in our mortgage-related investments portfolio or for sale to third parties, as shown in the diagram below. We also use this process to securitize reperforming loans.

Resecuritization Products - our resecuritization products represent beneficial interests in pools of PCs and certain other types of mortgage assets. We create these securities primarily by using PCs or our previously issued resecuritization products as the underlying collateral. We believe our issuance of these securities expands the range of investors in our mortgage-related securities to include those seeking specific security attributes. Similar to our PCs, we guarantee the payment of principal and interest to the investors in our resecuritization products. We do not charge a management and guarantee fee for these securities if the underlying collateral is already guaranteed by us since no additional credit risk is introduced, although we typically receive a transaction fee as compensation for creating the security and future administrative responsibilities. All of the cash flows from the collateral underlying our resecuritization products are generally passed through to investors in these securities. We do not issue resecuritization products that have concentrations of credit risk beyond those embedded in the underlying assets. In many of our resecuritization transactions, securities dealers or investors deliver mortgage assets in exchange for the resecuritization product. In certain cases, we may also exchange our own mortgage assets for the resecuritization product. The following diagram provides a general example of how we create resecuritization products:

We issue the following types of resecuritization products:

- Giant PCs - Giant PCs are resecuritizations of previously issued PCs or Giant PCs. Giant PCs are single-class securities that involve the straight pass through of all of the cash flows of the underlying collateral to holders of the beneficial interests.
- Stripped Giant PCs - Stripped Giant PCs are multiclass securities that are formed by resecuritizing previously issued PCs or Giant PCs and issuing principal-only and interest-only securities backed by the cash flows from the underlying collateral.
- REMICs - REMICs are resecuritizations of previously issued PCs, Giant PCs, Stripped Giant PCs, or REMICs. REMICs are multiclass securities that divide all of the cash flows of the underlying collateral into two or more classes with varying maturities, payment priorities and coupons.
- Other securitization products - From time to time, we issue guaranteed mortgage-related securities collateralized by non-Freddie Mac mortgage-related securities. However, we have not entered into these types of transactions as part of our Single-family Guarantee business in several years. In 2009 and 2010, we entered into transactions under Treasury’s NIBP with HFAs. See Note 2 for further information.

Long-term standby commitments - we provide a guarantee on mortgage assets held by third parties, in exchange for management and guarantee fees, without securitizing those assets. Long-term standby commitments obligate us to purchase seriously delinquent loans that are covered by those commitments. From time to time, we have consented to the termination of our long-term standby commitments and simultaneously entered into guarantor swap transactions with the same counterparty, issuing PCs backed by many of the same loans.

Credit Risk Transfer Transactions

Most of our credit risk transfer transactions are designed to transfer a portion of the credit risk on groups of previously acquired loans to third-party investors. These transactions are intended to attract private capital from new types of investors that have not historically invested in single-family mortgage credit risk. The following strategic considerations were incorporated into the design of our credit risk transfer transactions:

- Repeatable and scalable execution with a broad appeal to diversified investors;
- Execution at a cost that is economically sensible;
- Minimal effect on the TBA market;
- Minimize changes required of, and effects on, sellers and servicers by having Freddie Mac serve as the credit manager for investors; and
- Avoid or seek to mitigate the risk that our losses are not reimbursed timely and in full.

The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant loan defaults. These new credit risk transfer transactions include:

- STACR debt notes - In this transaction, we create a reference pool of loans from our Core single-family book and an associated securitization structure with notional credit risk positions (e.g., first loss, mezzanine, and senior positions). The notional amounts of the credit risk positions are reduced when certain specified credit events occur on the loans in the reference pool. The notional amounts of the credit risk positions may also be reduced based on scheduled and unscheduled principal payments that occur on the loans in the reference pool.

In STACR debt note transactions, losses may be allocated to the notional balances based on calculated losses using a predefined formula or based on the actual losses on the loans in the reference pool. For loans that are covered by credit risk transfer transactions based on calculated losses, we may write down STACR debt notes or receive reimbursement of losses when the loans experience a credit event, which predominantly includes a loan becoming 180 days delinquent. For loans that are covered by credit risk transfer transactions based on actual losses, we may write down STACR debt notes or receive reimbursement of losses once an actual loss event (e.g., third-party foreclosure sale, short sale or REO disposition) occurs.

We issue STACR debt notes related to certain of the notional credit risk positions to third-party investors and retain the remaining credit risk. We make payments of principal and interest on the issued notes, but are not required to repay principal to the extent that the notional credit risk position is reduced as a result of a specified credit event. The interest rate on STACR debt notes is generally higher than on our other unsecured debt securities due to the potential for reductions to their principal balance. The following diagram illustrates a typical STACR debt note transaction:

- ACIS insurance policies - In this transaction, we purchase insurance policies, typically underwritten by a group of insurers and reinsurers, that provide credit protection for certain specified credit events that occur and are allocated to the non-issued notional credit risk positions of a STACR debt note transaction (i.e., the risk positions that Freddie Mac retains). Under each insurance policy, we pay monthly premiums that are determined based on the outstanding balance of the STACR debt note reference pool. When specific credit events occur, we receive compensation from the insurance policy up to an aggregate limit based on a predefined formula or based on actual losses. We require insurers and reinsurers to partially collateralize their exposure to reduce the risk that we will not be reimbursed for our claims under the policies.

In 2015, we began offering two new types of credit risk transfer transactions:

- Whole loan securities - In this transaction, we issue guaranteed senior securities and unguaranteed subordinated securities backed by single-family loans. The unguaranteed subordinated securities will absorb first losses on the related loans.
- Seller indemnification agreement - In this transaction, we enter into an agreement upon loan acquisition with a seller under which the seller will absorb a portion of losses on the related single-family loans in exchange for a fee or a reduction in our management and guarantee fee. The indemnification amount may be fully or partially collateralized.

We also use other types of credit enhancements, such as primary mortgage insurance, to mitigate our credit risk exposure. See “Risk Management” for additional information on our credit risk transfer transactions, as well as the other types of credit enhancements we use.

Customers

Our customers in the Single-family Guarantee segment are predominantly lenders that originate loans for new or existing homeowners and sell them to us, and financial institutions that service these loans for us. These companies include mortgage banking companies, commercial banks, community banks, credit unions, other non-depository financial institutions, HFAs, and thrift institutions. Many of these companies are both sellers and servicers for us. In addition, our customers include investors and dealers in our guaranteed mortgage-related securities and investors and counterparties in credit risk transfer transactions.

We acquire a significant portion of our loans from several lenders that are among the largest originators in the U.S. In addition, a significant portion of our single-family loans is serviced by several large servicers. The graphs below present the concentration of our single-family purchase volume for 2015 and our loan servicing as of December 31, 2015 among our top five customers.

Percentage of Single-Family Purchase Volume

Percentage of Single-Family Servicing Volume

For additional information about seller/servicer concentration risk and our relationships with our seller/servicer customers, see “Risk Management - Credit Risk - Institutional Credit Risk - Sellers and Servicers.”

Competition

Our principal competitors in the Single-family Guarantee segment are Fannie Mae, Ginnie Mae (with FHA/VA), and other financial institutions that retain or securitize loans, such as commercial and investment banks, dealers, and thrift institutions. We compete on the basis of price, products, securities structure, and service. Competition to acquire single-family loans can also be significantly affected by changes in our credit standards. The conservatorship, including direction provided to us by our Conservator, may affect our ability to compete. For more information, see "Risk Factors - Other Risks -Competition from banking and non-banking institutions (including Fannie Mae, Ginnie Mae, and FHA/VA) may harm our business. FHFA's actions as Conservator of both companies could affect competition between us and Fannie Mae."

Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the price performance of our PCs relative to comparable Fannie Mae securities (we refer to this as market-adjusted pricing).

From time to time we undertake a variety of actions in an effort to support the liquidity and price performance of our PCs relative to comparable Fannie Mae securities. These actions may include:

- Resecuritizing PCs;
- Encouraging sellers to pool loans that they deliver to us into PC pools with a larger and more diverse population of loans; and
- Influencing the volume and characteristics of loans delivered to us by tailoring our loan eligibility guidelines and by other means.

For additional information about our efforts to support the liquidity and relative price performance of our PCs, see "Investments - Market Conditions" and "Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates."

MARKET CONDITIONS

The graphs and related discussion below present certain single-family market indicators, for the most recent five years, that can significantly affect the business and financial results of our Single-family Guarantee segment.

U.S. Single-Family Originations

Source: Inside Mortgage Finance dated January 29, 2016.

U.S. Single-Family Home Sales

Source: National Association of Realtors news release dated January 22, 2016.

Commentary

- There was a significant increase in single-family loan origination volumes in the U.S. in 2015, driven by an increase in refinancing activity as a result of lower average mortgage interest rates.
- We expect the volume of home sales in 2016 to grow slightly from 2015.

Single-Family Mortgage Debt Outstanding as of December 31,
Source: Federal Reserve Financial Accounts of the United States of America dated December 10, 2015. For 2015, the amount is as of September 30, 2015 (latest available information).

Single-Family Serious Delinquency Rates as of December 31,
Source: National Delinquency Survey from the Mortgage Bankers Association. For 2015, the rates (excluding Freddie Mac) are as of September 30, 2015 (latest available information).

Commentary

- Single-family serious delinquency rates in the U.S. continued to decline due to macroeconomic factors, such as decreased unemployment rates and continued home price appreciation.
- The U.S. single-family mortgage debt outstanding increased in 2015 compared to 2014, which resulted in an increase in the supply of loans available for us to purchase.
- As reported by the U.S. Census Bureau, the U.S. homeownership rate was 63.8% in the fourth quarter of 2015, compared to a high point of 69.2% in the fourth quarter of 2004, and the average of 66.2% since 1990.

BUSINESS RESULTS

The graphs and related discussion below present the business results of our Single-family Guarantee segment over the last three years.

New Business Activity

Single-Family Loan Purchases and Guarantees

Number of Families Helped to Own a Home

Commentary

- We maintain a consistent market presence by providing lenders with a constant source of liquidity for conforming loan products. We funded approximately 12.5 million single-family homes since 2009 and purchased nearly 1.4 million HARP loans since the initiative began in 2009, including nearly 45,000 during 2015.
- Our loan purchase activity increased significantly in 2015 compared to 2014, due to acquisitions of purchase money loans resulting from higher volumes of home sales and home price appreciation. Our loan purchase activity declined in 2014 to its lowest level since 2000. The decrease in our loan purchase activity in 2014 compared to 2013 was due to decreased refinancing activity driven by higher average mortgage interest rates in 2014.

- We continued working to improve access to affordable mortgage credit, including the introduction of a new loan initiative in March 2015 with a down payment option as low as three percent to help qualified borrowers with limited savings buy a home. We also continue to explore the feasibility of:
  - Increasing our purchases of loans securitized by permanently affixed manufactured housing;
  - Improving the effectiveness of pre-purchase and early delinquency counseling for borrowers;
  - Utilizing alternative credit score models and credit history standards in loan eligibility decisions; and
  - Increasing support for first-time home buyers.

We are responsibly expanding our programs and outreach capabilities to better serve low and moderate income borrowers and underserved markets. Expanding access to affordable mortgage credit will continue to be a top priority in 2016.

- We expect our purchase volume in 2016 to be similar to 2015, with HARP activity remaining low during 2016 since the pool of borrowers eligible to participate in the program has declined.

Single-family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio as of December 31,

Total Single-Family Loans as of December 31,

Commentary

- The Core single-family book grew to 66% of the single-family credit guarantee portfolio at December 31, 2015. We exclude HARP and other relief refinance loans from the Core single-family book because such loans generally reflect credit risk attributes of the original loans (many of which were originated between 2005 and 2008).

- The HARP and other relief refinance book represented an additional 18% of the single-family credit guarantee portfolio at December 31, 2015.
- The Legacy single-family book declined to 16% of the single-family credit guarantee portfolio at December 31, 2015.

Management and Guarantee Fees

Average Portfolio Segment Earnings Management and Guarantee Fee Rate(1) for the Year Ended December 31,

Average Management and Guarantee Fee Rate(1) Charged on New Acquisitions for the Year Ended December 31,

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

Commentary

- Average portfolio Segment Earnings management and guarantee fees increased in 2015 compared to 2014, due to higher amortization of upfront fees, driven by higher loan liquidations resulting from a lower interest rate environment, as well as the acquisition of new loans with higher management and guarantee fee rates.
- The difference between the average management and guarantee fee rate charged on new acquisitions and the average portfolio Segment Earnings management and guarantee fee rate, in basis points, reflects different methodologies for recognizing upfront delivery fee income. The average management and guarantee fee rate charged on new acquisitions recognizes upfront delivery fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations, whereas the average portfolio Segment Earnings management and guarantee fee rate recognizes these amounts over the contractual life of the related loans (usually 30 years). In addition, the average portfolio Segment Earnings management and guarantee fee rate reflects an average of our total mortgage portfolio and is not limited to purchases in the applicable year. Loans acquired prior to 2012 have lower contractual management and guarantee fee rates than loans we have acquired since that time.
- Management and guarantee fees charged on new acquisitions decreased during 2015, compared to 2014, due to a combination of competitive pricing and increased market-adjusted pricing costs based on the price performance of our PCs relative to Fannie Mae securities.

Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal method of transferring a portion of the mortgage credit risk subsequent to loan acquisition in our Core single-family book. The following charts present transactions that occurred in 2015 and the cumulative amount of transactions at December 31, 2015.

New STACR Debt Note and ACIS Transactions for the Year Ended December 31, 2015(1)

(In billions)

Freddie Mac

Senior

$169.4

ACIS

Freddie Mac

$1.7

STACR Debt Notes

Reference Pool(2)

Mezzanine

$179.2

$5.6

$0.4

Freddie Mac

ACIS

STACR Debt Notes

First Loss

$1.0

$0.4

$0.7

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

(2) Excludes additional STACR debt note and ACIS transactions of $0.4 billion and $0.7 billion, respectively, related to reference pools in transactions executed in prior periods.

Cumulative STACR Debt Note and ACIS Transactions as of December 31, 2015(1)

(In billions)

Freddie Mac

Senior

$365.5

Mezzanine

Freddie Mac

ACIS

STACR Debt Notes

Reference Pool

$384.6

$0.9

$12.0

$3.2

	Freddie Mac	ACIS	STACR Debt Notes
First Loss	$1.9	$0.4	$0.7

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

Commentary

- We continued to transfer a portion of credit losses to third-party investors, insurers, and selected sellers through credit risk transfer transactions. In 2015, we transferred a portion of the credit risk associated with $181.2 billion in UPB of loans in our Core single-family book using four types of credit risk transfer transactions. Significant developments in 2015 include completion of the following credit risk transfer transactions:
STACR debt notes and ACIS transactions that transferred some of the credit risk related to the first loss positions. Prior to 2015, we retained all of the first loss positions of these transactions;
STACR debt notes and ACIS transactions that allocated credit losses based on actual losses rather than calculated losses. Five of our eight STACR debt notes transactions completed in 2015 followed this new approach as did seven of our ten ACIS transactions;

- Two whole loan security transactions where we issued \$0.9 billion in UPB of guaranteed securities and \$0.1 billion in UPB of unguaranteed subordinated securities; and
- One seller indemnification agreement transaction.

- Since 2013, we have completed 34 credit risk transfer transactions that, upon execution of the transaction, covered \$386.6 billion in principal of loans in our Core single-family book.
- The interest and premiums we pay on our issued STACR debt note and ACIS transactions to transfer credit risk effectively reduce the management and guarantee income we earn on the PCs within the respective pools. Our expected management and guarantee fee income on the PCs within the STACR and ACIS reference pools has been effectively reduced by approximately 30%, on average, for transactions executed as of December 31, 2015. The reduction to our overall management and guarantee income could change over time as we continue our credit risk transfer activities or if there are changes in the economic or regulatory environment that impact the cost of executing these transactions.
- As of December 31, 2015 there has not been a significant number of loans in our STACR debt note reference pools that have experienced a credit event. As a result of the credit performance of these loans, we have only recognized small write-downs on our STACR debt notes and have begun to make claims for reimbursement of losses under our ACIS transactions.
- The 2016 Conservatorship Scorecard sets a goal for us to complete credit risk transfer transactions on at least 90% of the UPB of certain categories of newly acquired single-family loans, such as non-HARP fixed-rate loans with terms greater than 20 years and LTV ratios above 60%.

Loss Mitigation Activities

Number of Families Helped to Avoid Foreclosure

Loan Workout Activity

Commentary

- We continue to help struggling families retain their homes or otherwise avoid foreclosure through loan workouts, helping approximately 1.2 million borrowers since 2009. Our loan workout activity has declined over the last several years, along with a decline in the size of our seriously delinquent single-family loan portfolio. One of our loan workout programs, HAMP, terminates in December 2016.
- When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure. When foreclosure is unavoidable and we acquire the property as REO, we have helped to stabilize communities by focusing on REO sales to owner-occupants, who have made up 67% of purchasers since the beginning of 2009.
- As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent loans totaling $2.9 billion in UPB during 2015. Of the $7.7 billion in UPB of single-family loans classified as held-for-sale at December 31, 2015, $5.7 billion related to loans that were seriously delinquent. We believe selling these loans provides better economic returns than continuing to hold them.
- See “Risk Management” for additional information on our loan workout activities.

FINANCIAL RESULTS

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

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(dollars in millions)	2015	2014	2013	$	%	$	%
Net interest income (expense)	$(111)	$(111)	$320	$—	— %	$(431)	(135)%
Benefit (provision) for credit losses	2,030	(982)	1,409	3,012	(307)%	(2,391)	(170)%
Non-interest income:							
Management and guarantee fee income	5,406	4,397	4,397	1,009	23 %	—	— %
Other non-interest income (loss)	(1,422)	712	1,162	(2,134)	(300)%	(450)	(39)%
Total non-interest income	3,984	5,109	5,559	(1,125)	(22)%	(450)	(8)%
Non-interest expense:							
Administrative expense	(1,285)	(1,170)	(1,025)	(115)	10 %	(145)	14 %
REO operations (expense) income	(334)	(205)	124	(129)	63 %	(329)	(265)%
Other non-interest expense	(1,445)	(191)	(179)	(1,254)	657 %	(12)	7 %
Total non-interest expense	(3,064)	(1,566)	(1,080)	(1,498)	96 %	(486)	45 %
Segment adjustments	(254)	(303)	(694)	49	(16)%	391	(56)%
Segment Earnings before income tax (expense) benefit	2,585	2,147	5,514	438	20 %	(3,367)	(61)%
Income tax (expense) benefit	(807)	(600)	282	(207)	35 %	(882)	(313)%
Segment Earnings, net of taxes	1,778	1,547	5,796	231	15 %	(4,249)	(73)%
Total other comprehensive income (loss), net of tax	12	(10)	49	22	(220)%	(59)	(120)%
Total comprehensive income	$1,790	$1,537	$5,845	$253	16 %	$(4,308)	(74)%

Key Drivers:

- The benefit for credit losses in 2015 was primarily due to a reduction of loan loss reserves associated with the reclassification of mortgage loans from held-for-investment to held-for-sale. Excluding the effect of loan reclassifications and other related subsequent activity in 2015 and settlement agreements in 2014, the provision for credit losses decreased compared to 2014 primarily due to decreases in newly impaired loans. The (provision) for credit losses in 2014 reflects decreases for both newly impaired loans and settlement agreements with certain sellers to release specified loans from certain repurchase obligations.
- Management and guarantee fee income increased in 2015 primarily due to higher amortization of upfront fees, driven by higher loan liquidations resulting from lower average mortgage interest rates, higher average management and guarantee fee income rates, and an increase in the single-family credit guarantee portfolio.
- Other non-interest income decreased in 2015 primarily due to increased lower-of-cost-or-fair value adjustments on loans that were reclassified from held-to-investment to held-for-sale, fair value losses on STACR debt notes carried at fair value due to an increase in market prices for these notes, as well as higher STACR transaction volumes, and losses on our investment in CSS. Other non-interest income decreased in 2014 primarily due to fair value losses on guarantee assets and lower-of-cost-or-fair-value adjustments on loans held-for-sale, compared to gains on guarantee assets in 2013 due to an increase in interest rates during that year.

- Administrative expense increases resulted, in part, from our investments in our technology to better support our lenders and Freddie Mac's products and programs, as well as the new common securitization platform and the single (common) security initiative.
- REO operations expense increased in 2015 and 2014 compared to the respective prior year. REO property expenses declined in 2015 and 2014, consistent with a decline in REO inventory in each year. However, the REO property expenses were offset to a lesser extent by gains on the disposition of REO properties and recoveries from mortgage insurance, compared to the respective prior year.
- Other non-interest expense increased in 2015 primarily due to property taxes and insurance expense associated with loans reclassified as held-for-sale and expenses related to the allocation of funds to certain housing funds pursuant to the GSE Act during 2015.

MULTIFAMILY
BUSINESS OVERVIEW

The Multifamily segment provides liquidity to the multifamily market and supports a consistent supply of workforce housing by purchasing and securitizing loans secured by properties with five or more units. The Multifamily segment reflects results from our investment, securitization, and guarantee activities in multifamily loans and securities and the management of multifamily mortgage credit risk. The Multifamily segment supports our primary business strategies by creating:

A Better Freddie Mac:

- Continuing to provide financing to the multifamily mortgage market and expanding our market presence for workforce housing in line with our mission;
- Improving our risk-adjusted returns by leveraging private capital in our credit risk transfer transactions; and
- Maintaining strong credit and capital management discipline.

A Better Housing Finance System:

- Operating in a customer focused manner, in an effort to build value and support the creation of a strong, long-lasting rental housing system;
- Identifying new opportunities beyond our existing K Certificate transactions to transfer credit risk to third parties and reduce taxpayer exposure; and
- Fostering innovation of products that expand the availability of workforce housing in the marketplace.

We use a prior-approval underwriting approach for multifamily loans, in contrast to the delegated underwriting approach used in our Single-family Guarantee segment. Under this approach, we maintain credit discipline by completing our own underwriting and credit review for each new loan prior to issuance of a loan commitment, including review of third-party appraisals and cash flow analysis.

Multifamily loans are typically without recourse to the borrower, making repayment dependent on cash flows generated by the underlying property. Cash flows generated by a property are significantly influenced by vacancy and rental rates, as well as conditions in the local rental market, the physical condition of the property, the quality of property management, and the level of operating expenses.

Multifamily property markets are affected by local and regional economic factors, such as employment rates, construction cycles, preferences for homeownership versus renting, and relative affordability of single-family home prices, all of which influence the supply and demand for multifamily properties and pricing for apartment rentals.

Products and Activities

Securitization and Guarantee Products

In our Multifamily segment, we primarily issue the following types of securitization and guarantee products which make up our guarantee portfolio:

- K Certificates - Our primary business model is to purchase multifamily loans for aggregation and securitization through the issuance of multifamily K Certificates, which allows us to transfer the vast majority of the expected credit losses of the loans to third-party investors. As shown in the diagram below, in a typical K Certificate transaction, we sell multifamily loans to a non-Freddie Mac securitization trust that issues senior and subordinated securities, and simultaneously purchase and place the senior securities into a Freddie Mac securitization trust that issues guaranteed K Certificates. In substantially all of these transactions, we guarantee only the senior securities issued by the Freddie Mac securitization trust and do not issue or guarantee the subordinated securities issued by the non-Freddie Mac securitization trust. As a result, the vast majority of the expected credit risk is sold to the third-party investors in the subordinated securities, thereby reducing our credit risk exposure. We receive a management and guarantee fee in exchange for guaranteeing the K Certificates. Profitability on our K Certificates is evaluated in terms of management and guarantee fee income and gains on the sales of loans. We attempt to maximize our returns by optimizing the combination of gains we earn when we sell the loans for securitization and the management and guarantee fees we will earn over time.

We may purchase or retain a portion of the K Certificates or the unguaranteed subordinated securities, and, from time to time, we may undertake other activities to support the liquidity of K Certificates. For more information, see “Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates.”

- Other securitization products - We purchase small balance multifamily loans and sell them to a third-party securitization trust in transactions that are similar to our K Certificate transactions and that transfer a portion of the credit risk of the loans to third-party investors. From time to time, we also issue other types of securitization products, including PCs backed by multifamily loans and pass

through certificates backed by multifamily housing revenue bonds. In 2009 and 2010, we entered into transactions under Treasury's NIBP with HFAs. See Note 2 for further information.

- Other mortgage-related guarantees - We guarantee mortgage-related assets held by third parties in exchange for management and guarantee fee income without securitizing those assets. For example, we provide guarantees on certain tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily loans.

Investing Activities

- Mortgage loans - Our primary business model is to acquire loans for aggregation and then to securitize the loans through the issuance of K Certificates. However, we continue to hold a portfolio of multifamily mortgage loans that we acquired under our prior buy-and-hold investment strategy. This portfolio is declining over time.
- Agency mortgage-related securities - We may purchase or retain a portion of the K Certificates and other types of multifamily securitization products we issue, depending on market conditions, and we may also buy or sell these securities in the secondary market.
- Non-Agency mortgage-related securities - We may purchase a portion of the unguaranteed subordinated securities related to our securitization transactions, depending on market conditions.
- CMBS - We are not currently an active purchaser of CMBS. However, we continue to hold a portfolio of CMBS and other multifamily investment securities that we acquired under our prior buy-and-hold investment strategy. This portfolio is declining over time.

Customers

Our multifamily loan volume is sourced through our approved lenders. We generally provide post-construction financing to apartment project operators with established performance records. The following graphs show the concentration of our 2015 multifamily new business volume by our largest sellers and loan servicing by our largest servicers as of December 31, 2015. Any seller or servicer with a 10% or greater share is listed separately.

Percentage of Multifamily New Business Volume

Percentage of Multifamily Servicing Volume

Competition

We compete on the basis of price, service, and products, including our use of certain securitization structures. Our principal competitors in the Multifamily segment are Fannie Mae, FHA, commercial and investment banks, CMBS conduits, dealers, thrift institutions, and life insurance companies.

MARKET CONDITIONS

The graphs and related discussion below present certain multifamily market indicators, for the most recent five years, that can significantly affect the business and financial results of our Multifamily segment.
Change in Effective Rents for Period Ending December 31,
Source: REIS, Inc.

Apartment Vacancy Rates as of December 31,
Source: REIS, Inc.

Commentary

- 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) remain strong, but the rate of increase is expected to moderate in the future, consistent with the rise in vacancy rates. Vacancy rates increased slightly since 2013 from what is likely the cyclical low.
- Multifamily property prices have been especially strong, with 13% growth in 2015. Multifamily property price growth may slow from this level with the expected moderation in the rate of effective rent increase, the rising vacancy rate, as well as improving returns for other investment types.

Apartment Completions and Net Absorption

Source: REIS, Inc.

K Certificate Benchmark Spread as of December 31,

Source: J.P. Morgan

Commentary

- Apartment completions are an indication of the supply of rental housing. Net absorption, which is a measurement of the rate at which available apartments are occupied, is an indication of demand for rental housing.
- While supply (indicated by completions) has been on the rise and has driven the increase in vacancies, demand (indicated by net absorption) has also been strong for rental housing in recent periods because of an improving job market and lower homeownership rates. However, in the longer term, the increasing supply may have unfavorable impacts on rental and vacancy rates.
- The K Certificate benchmark spread represents the spread of a typical 10-year senior K Certificate over the U.S. swap curve. In 2015, the spread widened due to broad macroeconomic market volatility and uncertainty.
- The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) is impacted by the change in the K Certificate benchmark spread during the period between loan purchase and execution of the K Certificate transaction. During 2015, spread widening had an adverse effect on K Certificate profitability.

Multifamily Mortgage Debt Outstanding as of December 31,

Source: Federal Reserve Financial Accounts of the United States of America dated December 10, 2015. For 2015, the amount is as of September 30, 2015 (latest available information).

Multifamily Delinquency Rates as of December 31,
Source: Freddie Mac, FDIC Quarterly Banking Profile, Trepp, LLC. (MF CMBS market, excluding REOs), American Council of Life Insurers (ACLI). For 2015, the amounts for FDIC insured institutions and ACLI investment bulletin are as of September 30, 2015 (latest available information).

Commentary

- There was significant growth in the multifamily market during 2015. As reported by the Federal Reserve, total multifamily mortgage debt outstanding was approximately $1.1 trillion at September 30, 2015 (the latest available information), representing an increase of $95.0 billion (or 10%) since September 30, 2014, one of the largest annual increases ever reported by the Federal Reserve.
- Our share of multifamily mortgage debt outstanding has remained relatively stable over the past several years in the 12-14% range.
- Our multifamily delinquency rates during 2015 remained among the lowest in the industry, primarily due to our prior-approval underwriting approach discussed earlier.
- We expect continued growth in the multifamily mortgage market due to increasing property prices and new completions, along with favorable investment opportunities. In addition, we expect to maintain our share of multifamily mortgage debt outstanding in 2016.
- We expect the credit losses and delinquency rates for the multifamily mortgage portfolio to remain low in the near term.

BUSINESS RESULTS

The graphs and related discussion below present the business results of our Multifamily segment over the last three years.

New Business Activity

New Business Activity for the Year Ended December 31,

Acquisition of Units by Area Median Income (AMI) for the Year Ended December 31,

Commentary

- We met the 2015 Conservatorship Scorecard goal of maintaining the dollar volume of multifamily new business activity at or below a production cap of $30.0 billion. For purposes of determining our performance under the goal, business activity associated with certain targeted loan types is excluded from this production cap.

- In May 2015, FHFA expanded the affordable housing categories excluded from the production cap in our 2015 scorecard. These revisions enabled us to further support the needs of the workforce housing market across more communities. Based on this guidance, approximately 63% of our multifamily new business activity during 2015 counted towards the 2015 scorecard production cap, and the remaining 37% was uncapped.
- Nearly 90% of the eligible units we financed during 2015 were affordable to families earning at or below the median income in their area (eligible units are multifamily units that qualify toward our affordable housing goal). We increased our support of workforce housing in the multifamily mortgage market during 2015 through new initiatives, including purchases of manufactured housing community loans and small balance loans.
- We expect our overall new business volume to increase in 2016; however, we expect our volume in the capped categories to be at or below the 2016 Conservatorship Scorecard cap of $31.0 billion. We also expect to introduce new initiatives to support liquidity and workforce housing in the multifamily mortgage markets.
- We expect the increased competition from other market participants, particularly banking institutions, to continue.

Multifamily Portfolio

Multifamily Portfolio as of December 31,

Net Interest Yield Earned For the Year Ended December 31,

Commentary

- Our Multifamily portfolio grew in 2015 due to an increase in the guarantee portfolio, which was primarily attributable to our securitization of loans in K Certificate transactions. This growth was consistent with the overall increase in multifamily mortgage debt outstanding in the U.S.
- Our portfolio of interest-earning assets continued to decline in 2015 as a result of reductions in our unsecuritized loan and mortgage-related securities portfolios, consistent with our plans to reduce our holdings of less liquid assets. The interest earning assets that liquidated had lower net interest yields relative to the average portfolio, resulting in an increase in net interest yields in 2015.
- We expect a continued increase in the size of our guarantee portfolio as a result of ongoing K Certificate transactions and a reduction in our unsecuritized loan and mortgage-related security portfolios due to ongoing principal repayments.

Management and Guarantee Fees

Average Management and Guarantee Fee Rate Charged on New K Certificates for the Year Ended December 31,

Average Portfolio Management and Guarantee Fee Rate as of December 31,

Commentary

- The guarantee portfolio increased in 2015 as a result of our ongoing issuance of K Certificates.
- The average management and guarantee fee rate on both the overall guarantee portfolio and on newly issued K Certificates increased in 2015, primarily as a result of increased securitizations of products for which we charge higher fees. We expect the average management and guarantee fee rate charged for new K Certificate issuances in 2016 to be consistent with the rates in 2015.

- The average management and guarantee fee rate charged on K Certificates is generally lower than the average management and guarantee fee rate charged on our other securitization products and other mortgage-related guarantees. The lower management and guarantee fee rate on K Certificates is driven by higher levels of subordination that absorb the vast majority of the expected credit losses.

Credit Risk Transfer Activity

New K Certificate Issuances for the Year Ended December 31,

Cumulative K Certificate Issuances as of December 31,

Commentary

- In addition to the credit risk we transferred on the K Certificates issued in 2015, we also transferred credit risk associated with $1.7 billion of additional loans through other securitization products, such as small balance loan securitizations.
- More than 90% of the loans we purchased in 2015 were designated for securitization.
- We resecuritized $3.4 billion of less liquid non-agency mortgage-related securities, transferring a portion of the credit risk to private investors.
- While we expect to use K Certificates as the primary method to transfer credit risk in 2016, we also expect to introduce new initiatives to transfer risk.

FINANCIAL RESULTS

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

	Year Ended December 31,			Change 2015 - 2014		Change 2014 - 2013	
(dollars in millions)	2015	2014	2013	$	%	$	%
Net interest income	$927	$948	$1,186	$(21)	(2)%	$(238)	(20)%
Benefit for credit losses	26	55	218	(29)	(53)%	(163)	(75)%
Non-interest income:							
Management and guarantee fee income	339	254	206	85	33%	48	23%
Gains (losses) on loans	(93)	870	(336)	(963)	(111)%	1,206	(359)%
Derivative gains	372	335	1,281	37	11%	(946)	(74)%
Other non-interest income	17	234	1,203	(217)	(93)%	(969)	(81)%
Total non-interest income	635	1,693	2,354	(1,058)	(62)%	(661)	(28)%
Non-interest expense:							
Administrative expense	(325)	(274)	(257)	(51)	19%	(17)	7%
REO operations (expense) income	(4)	9	16	(13)	(144)%	(7)	(44)%
Other non-interest expense	(56)	(23)	(24)	(33)	143%	1	(4)%
Total non-interest expense	(385)	(288)	(265)	(97)	34%	(23)	9%
Segment Earnings before income tax expense	1,203	2,408	3,493	(1,205)	(50)%	(1,085)	(31)%
Income tax expense	(376)	(772)	(443)	396	(51)%	(329)	74%
Segment Earnings, net of taxes	827	1,636	3,050	(809)	(49)%	(1,414)	(46)%
Total other comprehensive income (loss), net of tax	(261)	(177)	(1,595)	(84)	47%	1,418	(89)%
Total comprehensive income	$566	$1,459	$1,455	$(893)	(61)%	$4	—%

Key Drivers:

- Net interest income declined in 2015 compared to 2014 primarily due to a segment allocation in 2015 of debt extinguishment costs related to the transfer of $1.2 billion of seasoned mortgage loans to a consolidated K Certificate trust. This decline was partially offset by higher net interest income in 2015 due to changes in the composition of our multifamily portfolio, as lower yielding legacy loans and securities were replaced with purchases of higher-yielding loans to support future securitizations. The decline in 2014 compared to 2013 was primarily due to lower average multifamily portfolio balances of interest-earning assets.
- Benefit for credit losses declined each year. The credit performance of the multifamily mortgage portfolio remained strong each year and the number of loans subject to a loan loss reserve has declined over time. Loans purchased for securitization are recorded at fair value and are therefore not subject to a loan loss reserve.
- Management and guarantee fee income increased each year, primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.
- Gains (losses) on loans was a loss in 2015 as loans are sensitive to changes in K Certificate benchmark spreads observed in the market as well as to interest rate-related fair value changes (for which resulting gains (losses) are offset in derivatives gains (losses)). The significant widening of K Certificate benchmark spreads coupled with higher loan purchase and securitization volume resulted in losses on loans in 2015, as compared to gains on loans recognized in 2014 when spreads tightened. The change from losses in 2013 to gains in 2014 was attributable to interest rate-related

fair value changes (that are offset in derivative gains (losses)), as rates increased in 2013 but decreased in 2014.

- Derivative gains (losses) for the Multifamily segment are offset by fair value changes of the loans and investment securities being hedged. As a result, there is no net impact on total comprehensive income for the Multifamily segment from fair value changes related to interest rate-related derivatives. The fair value changes of the hedged assets are included in gains (losses) on loans, other non-interest income and total other comprehensive income.
- Other non-interest income and total other comprehensive loss (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) declined each year, primarily due to declining sales of available-for-sale securities where gains had previously been recognized in AOCI. We sold $1.0 billion of investment securities in 2015, compared to $2.6 billion during 2014 and $13.6 billion in 2013.

INVESTMENTS
BUSINESS OVERVIEW

The Investments segment reflects results from three primary activities:

- Managing the company’s mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans;
- Managing the treasury function for the company, including funding and liquidity; and
- Managing interest-rate risk for the company.

The objectives of our Investments segment are to make appropriate risk and capital management decisions and to be a market leader. The Investments segment supports our primary business strategies by creating:

A Better Freddie Mac:

- Engaging in economically sensible transactions to reduce our less liquid assets, including non-agency mortgage-related securities, and to reduce the balance of our reperforming loans and our performing modified loans;
- Managing the mortgage-related investments portfolio’s risk-versus-return profile based on our internal economic capital framework;
- Enhancing the liquidity of our issued securities in the secondary mortgage market to support our business needs;
- Responding to market opportunities by efficiently funding the company's business activities; and
- Managing the company's economic interest-rate risk through the use of derivatives and other debt.

A Better Housing Finance System:

- Expanding and improving the delivery of mortgage capital markets services through our cash loan purchase program, in conjunction with the Single-family Guarantee segment.

Although we manage our business on an economic basis, we may forgo certain investment opportunities for a variety of reasons, including the limit on the size of our mortgage-related investments portfolio or the risk that a particular accounting treatment may create earnings volatility as well as result in a future draw from Treasury. For additional information on the limits on the mortgage-related investments portfolio established by the Purchase Agreement and by FHFA, see "Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness."

Products and Activities

Investing and Related Activities

In our Investments segment, we manage the following types of products:

- Agency mortgage-related securities - We primarily invest in Freddie Mac mortgage-related securities, but may also invest in Fannie Mae and Ginnie Mae mortgage-related securities from time to time. Our activities with respect to this product may include purchases and sales, dollar roll transactions, and structuring activities (e.g., resecuritizing existing agency securities into REMICs and selling some or all of the resulting REMIC tranches).

- Non-agency mortgage-related securities - We generally no longer purchase non-agency mortgage-related securities, but continue to have a large portfolio of non-agency mortgage-related securities that we acquired in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover losses we recognized in prior years. In recent years, we and FHFA reached settlements with a number of institutions. Lawsuits against other institutions are currently pending. Our activities with respect to this product are primarily sales but could include other disposition strategies in the future.
- Single-family unsecuritized loans - Single-family unsecuritized loans are classified into three categories:

Loans acquired through our cash loan purchase program that are awaiting securitization;
Reperforming loans and performing modified loans; and
Seriously delinquent loans that we have removed from PC pools (this loan category is managed by both the Investments and Single-family Guarantee segments, but is included in the Single-family Guarantee segment's investment portfolio and financial results).

The strategies employed to manage each category may differ. We securitize a majority of the loans acquired through our cash loan purchase program into Freddie Mac mortgage-related securities, primarily PCs, which may be sold to investors or retained in our mortgage-related investments portfolio. As part of the Retained Portfolio plan, we are reducing the balance of our reperforming and performing modified loans through a variety of methods, including disposition through structured transactions, with the resulting securities being sold to investors or retained in our mortgage-related investments portfolio. In the future, we may seek to sell these loans directly or pursue other disposition strategies. Seriously delinquent loans continue to be reduced through loss mitigation and foreclosure activities, as well as through sales of certain non-performing loans.

- Non-mortgage-related assets - We maintain a portfolio consisting primarily of cash, Treasury securities, and securities purchased under agreements to resell, principally for short-term liquidity management. This portfolio also includes cash invested on behalf of our consolidated trusts and cash pledged to us under various agreements.

We evaluate the liquidity of our mortgage-related assets based on three categories (in order of liquidity):

- Liquid: single-class and multi-class agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities;
- Securitization Pipeline: performing single-family loans purchased for cash and primarily held for a short period until securitized, with the resulting Freddie Mac issued securities being sold or retained; and
- Less Liquid: assets that are less liquid than agency securities and loans in the securitization pipeline (e.g., reperforming loans and performing modified loans and non-agency mortgage-related securities).

As a well-established disposition path exists for our single-family loans included in the securitization pipeline, we consider those assets to be more liquid than non-agency securities and reperforming loans and performing modified loans, but less liquid than single-class and multi-class agency securities.

As part of our Retained Portfolio plan, we are focused on reducing the balance of less liquid assets that we hold in the mortgage-related investments portfolio through a combination of pay-downs, sales and securitizations.

We may undertake various activities in an effort to support our presence in the agency securities market or to support the liquidity of our PCs, including the price performance relative to comparable Fannie Mae securities. These activities may include the purchase and sale of agency securities, the purchase of loans, dollar roll transactions, and structuring activities, such as resecuritization of existing agency securities and the sale of some or all of the resulting securities. Depending upon market conditions, there may be substantial variability in any period in the total amount of securities we purchase or sell. In some cases, the purchase or sale of agency securities could adversely affect the price performance of our PCs relative to comparable Fannie Mae securities.

We incur costs in connection with our efforts to support our presence in the agency securities market and to support the liquidity and price performance of our PCs, including by engaging in transactions that yield less than our target rate of return. For more information, see “Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates.”

Funding and Liquidity Management Activities

Our Treasury function manages the funding needs of the company, including the Investments segment, primarily through the issuance of unsecured other debt. The type and term of debt issued is based on a variety of factors and is designed to efficiently meet our ongoing cash needs and to comply with our Liquidity Management Framework. This Framework provides a mechanism for us to sustain significant periods of market illiquidity, while being able to maintain certain business activities and remain current on all obligations. See "Liquidity and Capital Resources - Liquidity Management Framework" for additional discussion of our Liquidity Management Framework.

We use the following types of products as part of our funding and liquidity management activities:

- Discount Notes and Reference Bills - We issue short-term instruments with maturities of one year or less. These products are generally sold on a discounted basis, paying principal only at maturity. Reference Bills are auctioned to dealers on a regular schedule, while discount notes are issued in response to investor demand and our cash needs.
- Medium-term Notes - We issue a variety of fixed-rate and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, and zero-coupon securities, with various maturities.
- Reference Notes Securities - Reference Notes securities are non-callable fixed-rate securities, which we currently issue with original maturities greater than two years.

To maintain sufficient short-term liquidity, we may hold a combination of cash, cash-equivalent, and non-mortgage-related investments in our liquidity and contingency operating portfolio. These instruments are limited to those we expect to be liquid and readily convertible into cash. We also lend available cash on a short-term basis through transactions where we purchase securities under agreements to resell. This portfolio is designed to allow us to meet all of our obligations in the event that we lose access to the unsecured debt markets for a period of time.

Interest-Rate and Other Risk Management Activities

Our goal is to manage the economic interest-rate risk for the company within management approved levels, as measured by our models. See "Risk Management - Interest-Rate Risk and Other Market Risks”

for additional information, including the measurement of the interest rate sensitivity of our financial assets and liabilities.

Typically there is an interest rate risk mismatch between our financial assets and the other debt that we use to fund those assets. For example, many investors in our callable Medium-term Notes prefer to have final maturities of 5 years or less. While this type of debt helps us to meet our need for longer-term liquidity, it may not match the mortgage assets' interest-rate risk characteristics. In this case, we would typically use interest-rate derivatives to reduce the economic risk exposure between our financial assets and liabilities. Using our risk management framework described in the "Risk Management - Interest Rate and Other Market Risks" section, we seek to reduce this impact to low levels. We also could consider the expected holding periods of our financial assets and liabilities. Our debt terms are generally shorter than our assets' projected life. As a result, we will likely have to reissue debt to continue to hold the assets. Changes in spreads on future debt issuances may impact the future cash flows of our portfolio. We at times attempt to manage the impact of interest-rates on future debt issuance. Additionally, financial assets that are likely to be sold prior to their final maturity may have a different debt and derivative mix than financial assets that we plan to hold for a longer period. As a result, interest rate risk measurements for those assets may include additional assumptions (such as a view on expected changes in spreads) concerning their price sensitivity rather than just a longer-term view of cash flows.

To manage our interest rate risk, we primarily use interest rate swaps, options, swaptions, and futures. When we use derivatives to mitigate our risk exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

Customers

Our unsecured other debt securities and structured mortgage-related securities are initially purchased by dealers and redistributed to their customers. The customers for these securities generally include state and local governments, insurance companies, money managers, central banks, depository institutions, and pension funds. Our customers under our loan cash purchase program are a variety of lenders, as discussed in “Single-Family Guarantee - Business Overview - Customers.”

Competition

Our competitors in the Investments segment are firms that invest in loans and mortgage-related assets, and issue corporate debt, including Fannie Mae, REITs, supranationals (international institutions that provide development financing for member countries), commercial and investment banks, dealers, thrift institutions, insurance companies, the Federal Farm Credit Banks, and the FHLBs.

MARKET CONDITIONS

The following graph and related discussion presents the par swap rate curve for the most recent three years. As our derivatives and variable-rate debt are generally LIBOR-based, changes in par swap rates can significantly affect the business and financial results of our Investments segment.
Par Swap Rates as of December 31,
Sources: Bloomberg, ICAP
Commentary

- We primarily use LIBOR-based derivatives and fixed-rate debt to hedge our interest rate risk. The mortgage-related investments portfolio's exposure to interest rate risk is calculated by our models that project loan and security cash flows over a variety of scenarios. For additional information on our exposure to interest rate risk, see "Risk Management - Interest-Rate Risk and Other Market Risks."
- Changes in interest rates affect the fair value of our derivatives. Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. With a pay-fixed interest-rate swap, as interest rates decline, we recognize derivative losses. Conversely, as interest

rates rise, we recognize derivative gains. The opposite is true with respect to a receive-fixed interest-rate swap.

- As our derivative portfolio is referenced to different maturity terms along the yield curve, a change in the shape of the yield curve (flattening or steepening) will also affect the fair value of our derivatives.
- The Federal Reserve decided in December 2015 to begin raising short-term interest rates but committed to a measured pace of monetary tightening. As a result, shorter-term interest rates, including the 3-month LIBOR rates, increased in December 2015. However, the magnitude and timing of the impact of the Federal Reserve's action on mortgage and other longer-term rates is uncertain.

BUSINESS RESULTS

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

Investing Activity

The following table presents the Investments segment's investments portfolio.

(in millions)	December 31, 2015				December 31, 2014			
	Liquid	Securiti-zation Pipeline	Less Liquid	Total	Liquid	Securiti-zation Pipeline	Less Liquid	Total
Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$—	$ 10,041	$—	$10,041	$—	$ 7,497	$—	$7,497
Reperforming loans and performing modified loans	—	—	67,036	67,036	—	—	75,281	75,281
Total single-family unsecuritized loans	—	10,041	67,036	77,077	—	7,497	75,281	82,778
Freddie Mac mortgage-related securities	135,869	—	6,076	141,945	150,852	—	7,363	158,215
Non-agency mortgage-related securities	—	—	27,754	27,754	—	—	44,230	44,230
Non-Freddie Mac agency mortgage-related securities	12,958	—	—	12,958	16,341	—	—	16,341
Total - Mortgage investments portfolio	$148,827	$ 10,041	$100,866	$259,734	$167,193	$ 7,497	$126,874	$301,564
Non-mortgage-related assets portfolio	100,913	—	—	100,913	78,040	—	—	78,040
Total Investments Portfolio	$249,740	$ 10,041	$100,866	$360,647	$245,233	$ 7,497	$126,874	$379,604

Commentary

- Consistent with our efforts to improve the overall liquidity of our mortgage investments portfolio, our new asset acquisitions have almost entirely consisted of purchases of agency mortgage-related securities and loans awaiting securitization into PCs. During 2015, the percentage of our less liquid assets relative to our total mortgage investments portfolio declined 3.3% to 38.8%.
- We expect to reduce the balance of our less liquid assets through a combination of pay-downs, securitizations, and sales.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balance Commentary

- The average balance of the mortgage-related securities that we manage declined by 10.3% during 2015 compared to 2014, consistent with the company's efforts to comply with the mortgage-related investments portfolio limits. The decline in the balance of our mortgage-related securities was primarily due to pay-downs of certain agency mortgage-related securities and pay-downs and sales of certain non-agency mortgage-related securities.
- The average balance of the single-family unsecuritized mortgage loans that we manage declined by 4.6% during 2015 compared to 2014, primarily due to the securitization of certain reperforming loans and performing modified loans.
- The average balance of the non-mortgage-related assets that we manage will fluctuate period to period based on our liquidity needs, investment strategy, and investment returns. This portfolio reflects our investments for operating purposes as well as the restricted assets that we hold and invest on behalf of consolidated trusts and cash that has been pledged to us under various agreements.
- Net interest yield declined 29 basis points during 2015, primarily due to a decline in the average yield earned from the mortgage-related assets that we manage. This decline was primarily driven by the pay-down of certain higher-yielding agency securities. Although we acquired additional agency

securities to replace certain of those securities that paid down, the new securities have lower yields due to an overall lower interest rate environment. The decline in average yield earned was also driven by an increase in the amount of premium amortization recognized for loans held by consolidated trusts due to higher borrower prepayments. The amortization of loan premiums is generally offset by the amortization of the related debt premiums that were recognized upon the issuance of a PC. However, while loan premiums are amortized into net interest income, the related debt premiums are amortized into other non-interest income.

- We expect our net interest yield and average investments portfolio balance to continue to decline in 2016 as we manage the size of our mortgage-related assets.

Reduction In Less Liquid Assets

Securitizations of Reperforming Loans and Performing Modified Loans

Sales of Less Liquid Assets

Commentary

- Since 2013, we have focused on reducing, in an economically sensible manner, our holdings of certain less liquid assets, including reperforming and performing modified single-family loans and non-agency mortgage-related securities. Our principal disposition strategies for our less liquid assets include securitizations and sales.

Funding Activity

The table below summarizes our funding activity.

(in millions)	Year Ended December 31, 2015	2014	2013
Discount notes and Reference Bills:			
Beginning balance	$134,670	$137,767	$117,930
Issuances	427,964	217,717	293,350
Maturities	(458,546)	(220,747)	(273,513)
Other	—	(67)	—
Ending balance	104,088	134,670	137,767
Callable debt:			
Beginning balance	107,070	108,391	102,908
Issuances	128,612	66,128	69,738
Repurchases	—	(2,592)	(1,879)
Calls	(124,435)	(61,288)	(59,557)
Maturities	(3,572)	(3,563)	(2,816)
Other	—	(6)	(3)
Ending balance	107,675	107,070	108,391
Non-callable debt:			
Beginning balance	206,393	264,080	331,634
Issuances	42,520	21,595	45,353
Repurchases	(397)	(1,413)	(197)
Maturities	(54,144)	(77,869)	(112,731)
Other	—	—	21
Ending balance	194,372	206,393	264,080
Total other debt	$406,135	$448,133	$510,238

Commentary

- We fund our business activities primarily through the issuance of unsecured other short-term (e.g., discount notes and Reference Bills), medium-term and long-term debt. The outstanding balance of our other debt declined during 2015, as we required less debt to fund our business operations, as the balance of our mortgage-related investments portfolio continued to decline.
- During 2015, we began to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. This resulted in an increase in both issuances and pay-offs of our short-term other debt.
- Issuances and calls of our longer-term callable debt increased during 2015, as we refinanced more of our outstanding callable debt due to the low interest rate environment. See "Market Conditions" for additional discussion of interest rates.

Debt Composition

Contractual Maturity Date as of December 31, 2015

Earliest Call Date as of December 31, 2015

Commentary

- As our long-term debt spreads remained high in 2015, we continued to rely on short-term and medium-term debt issuances to fund our business. Short-term debt as a percentage of total other debt has remained relatively flat at 41.3% in 2015, down 1.3% and 1.5% from 2014 and 2013, respectively.
- Our short-term debt issuances provide us with overall lower funding costs relative to longer-term debt and greater flexibility as we reduce our mortgage-related investments portfolio. However, in recent years, we have witnessed a significant increase in FHLB short-term debt issuances and outstanding balances. Increased competition from the FHLBs with respect to short-term debt issuances may have caused our short-term debt spreads to increase during the last quarter of 2015.
- During 2015, spreads on our callable debt were favorable relative to our non-callable medium-term and long-term debt. Furthermore, our callable debt provides us with flexibility in the event that our liquidity condition changes. As a result, we issued more callable debt during 2015 compared to 2014. As of December 31, 2015, $93 billion of the outstanding $108 billion of callable debt may be called in 2016.

FINANCIAL RESULTS

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

	Year Ended December 31,			Change 2015 - 2014		Change 2014 - 2013	
(dollars in millions)	2015	2014	2013	$	%	$	%
Net interest income	$1,734	$2,966	$3,525	$(1,232)	(42)%	$(559)	(16)%
Non-interest income:							
Net impairment of available-for-sale securities recognized in earnings	420	(140)	(974)	560	(400)	834	(86)
Derivative gains (losses)	(70)	(5,158)	5,543	5,088	(99)	(10,701)	(193)
Gains (losses) on trading securities	(737)	(276)	(1,466)	(461)	167	1,190	(81)
Non-agency mortgage-related securities settlements	65	6,084	5,501	(6,019)	(99)	583	
Other non-interest income	3,614	2,797	3,401	817	29	(604)	(18)
Total non-interest income	3,292	3,307	12,005	(15)	—	(8,698)	(72)
Non-interest expense:							
Administrative expense	(317)	(437)	(523)	120	(27)	86	(16)
Other non-interest (expense) income	(4)	(6)	349	2	(33)	(355)	(102)
Total non-interest expense	(321)	(443)	(174)	122	(28)	(269)	155
Segment adjustments	781	635	1,037	146	23	(402)	(39)
Segment Earnings before income tax expense	5,486	6,465	16,393	(979)	(15)	(9,928)	(61)
Income tax expense	(1,715)	(1,945)	(463)	230	(12)	(1,482)	320
Segment Earnings, net of taxes	3,771	4,520	15,930	(749)	(17)	(11,410)	(72)
Total other comprehensive income (loss), net of tax	(356)	1,951	4,357	(2,307)	(118)	(2,406)	(55)
Total comprehensive income	$3,415	$6,471	$20,287	$(3,056)	(47)%	$(13,816)	(68)%

Certain of our financial assets and liabilities are measured at amortized cost, while others, including derivatives, are measured at fair value. We use derivatives to economically hedge the interest-rate exposure related to our financial assets. As a result, changes in interest rates create volatility in our Segment Earnings, as the volatility created by interest rate changes is recognized in the Investment segment, unless otherwise allocated to other segments. The volatility in our Segment Earnings generally is not indicative of the underlying economics of our business.

Key Drivers:

- Net interest income declined in 2015 and 2014, primarily due to the continued reduction in the balance of our mortgage-related assets. The decline in our mortgage-related assets balance during 2015 was due to pay-downs and sales and other active dispositions.
- Net impairment of available-for-sale securities recognized in earnings was in a net recovery position during 2015 compared to a net loss position in 2014, primarily due to the accretion of previously recognized other-than-temporary impairments exceeding new other-than-temporary impairments. Net impairment of available-for-sale securities recognized in earnings declined during 2014 compared to 2013, primarily due to a larger amount of accretion being recognized in 2014 and lower new other-than-temporary impairments.
- Changes in derivative gains (losses) primarily resulted from changes in longer-term interest rates. Longer-term interest rates declined in both 2015 and 2014, while interest rates increased during

2013. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.

- The losses on trading securities during all periods were primarily due to the movement of securities in an unrealized gain position towards maturity. The losses on trading securities in 2015 were larger than 2014, as a result of agency spreads widening in 2015 compared to tightening in 2014. The losses on trading securities in 2013 were primarily driven by increases in longer-term interest rates.
- Non-agency mortgage-related securities settlements declined significantly during 2015 compared to 2014, as a majority of our non-agency mortgage-related securities litigation settled during 2014 and 2013. We continue to have ongoing litigation with respect to certain other non-agency mortgage-related securities. In 2015, we entered into one small settlement to resolve a claim with respect to certain non-agency mortgage-related securities that we hold, while we reached settlements with 10 institutions during 2014. Income from the settlement of non-agency mortgage-related securities litigation was significant during 2014, however it was relatively flat compared to 2013.
- Other non-interest income increased during 2015 compared to 2014, primarily due to an increase in the amortization of basis adjustments associated with debt securities of consolidated trusts. This increase was a result of higher prepayment rates during 2015 compared to 2014. Other non-interest income decreased during 2014 compared to 2013, primarily due to a decrease in the amortization of basis adjustments associated with debt securities of consolidated trusts, as a result of slower prepayment rates. See "Key Economic Indicators" for a discussion of mortgage interest rates, which are generally correlated to the amount of refinance activity.
- Income tax expense decreased during 2015 compared to 2014, as result of lower Segment Earnings and a relatively flat effective tax rate (see Note 11). Income tax expense increased during 2014 compared to 2013, as a result of a full year of income tax expense in 2014. In 2013, we released the valuation allowance against our net deferred tax assets, creating less income tax expense for the year.
- Other comprehensive income was a loss during 2015 compared to income during 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI to earnings. The decrease in other comprehensive income during 2014 compared to 2013 was primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve during 2014. Other comprehensive income in all periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

ALL OTHER
COMPREHENSIVE INCOME

The table below shows our comprehensive income (loss) for the All Other category.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(in millions)	2015	2014	2013	$	%	$	%
Comprehensive income (loss) - All Other	$28	$(41)	$24,013	$69	(168)%	$(24,054)	(100)%

Comprehensive income (loss) for the All Other category for 2013 reflects a benefit for federal income taxes that resulted from the release of our valuation allowance against our net deferred tax assets.

RISK MANAGEMENT

OVERVIEW

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, interest rate and other market risks, liquidity risk, and operational risk. We primarily discuss credit risk, interest-rate and other market risks, and operational risk in this section. See "Liquidity and Capital Resources" for a discussion of liquidity risk. For more discussion of these and other risks facing our business, see “Risk Factors.”

RISK MANAGEMENT FRAMEWORK

We manage risk using a three-lines-of-defense risk management framework. The diagram below provides examples of how the three lines of defense complement each other under our risk management framework. These roles and responsibilities continue to evolve.

	Lines of Defense		
RISK CATEGORY	First Line Business Units	Second Line ERM Division Compliance Division	Third Line Internal Audit Division
Credit	Identify, assess, measure and manage risk within established credit policy guidelines Establish key risk indicators and various other metrics	Establish credit risk appetite, policy, limits, monitoring metrics and credit risk decision review process	Evaluates the design adequacy, operational effectiveness, and efficiency of governance, risk management, and control processes, including, but not limited to, the manner in which the first and second lines of defense achieve risk management and control objectives
Interest Rate and Other Market Risks	Identify, assess, measure and manage duration gap, PMVS, and other measures on a daily basis, including spread risk Establish key risk indicators and various other metrics	Establish interest rate and other market risks appetite, policy, limits, monitoring metrics and assess measurement methodologies	
Liquidity	Identify, assess, measure and manage cash balances and short-and long-term liquidity needs on a daily basis Establish key risk indicators and various other metrics	Establish liquidity risk appetite, policy, limits, monitoring metrics and assess measurement methodologies	
Operational	Identify, assess, measure and manage risk, while establishing and implementing operational processes and controls	Establish operational risk appetite, policy, limits, monitoring metrics and evaluate loss event data and perform root cause analysis and testing	

Establish key risk
indicators and various
other metrics

RISK MANAGEMENT GOVERNANCE STRUCTURE

We manage risk using a governance structure that includes enterprise-wide oversight by the Board and its committees, CERO, CCO, and our corporate Enterprise Risk Committee ("ERC").

The discussion and diagram below present the structure of our three-lines-of-defense risk management framework and our governance structure.

We have made considerable enhancements to our risk management framework in recent years, including:

- Revising our integrated enterprise risk management framework to enable us to place more focus on high risk business processes and activities; and
- Leveraging our enterprise risk management framework to begin implementation of a redesigned, enhanced, and still maturing three-lines-of-defense methodology.

We use this still maturing three-lines-of-defense methodology to both strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. Our framework focuses on balancing ownership of risk by our business units with corporate oversight and independent assurance of the design and effectiveness of our risk management activities. For more information on the role of the Board and its committees, see "Directors, Corporate Governance, and Executive Officers - Board and Committee Information."

ECONOMIC CAPITAL

We use an internal economic capital framework as a component in our risk management process, which includes a risk-based measurement of capital adjusted for relevant interest rate and other market, credit, and operational risks. We assign economic capital internally to asset classes based on their respective risks. Economic capital is a factor we consider when we make economic decisions, establish risk limits, and measure profitability. We are working with FHFA to develop an overall risk measurement framework for evaluating Freddie Mac's and Fannie Mae's business decisions during conservatorship.

CREDIT RISK

OVERVIEW

We are exposed to both mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a loan that 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.

We are exposed to three types of mortgage credit risk:

- Single-family mortgage (SF) credit risk, through our ownership or guarantee of loans in the single-family credit guarantee portfolio;
- Multifamily mortgage (MF) credit risk, through our ownership or guarantee of loans in the multifamily mortgage portfolio; and
- Mortgage-related securities (MRS) credit risk, through our ownership of non-Freddie Mac mortgage-related securities in the mortgage-related investments portfolio.

We also hold investments in certain non-mortgage-related securities. As of December 31, 2015, 2014, and 2013, the fair value of our investments in these securities was $17.2 billion, $6.7 billion and $6.6 billion, respectively, and consisted of investments in Treasury securities. As Treasury securities are backed by the full faith and credit of the U.S. government, we consider these securities to be free of credit risk. We may also invest in other types of non-mortgage-related securities that may expose us to institutional credit risk.

In the sections below, we generally discuss our risk management framework and current risk environment for each of the three types of mortgage credit risk and for institutional credit risk.

SINGLE-FAMILY MORTGAGE CREDIT RISK

We manage our exposure to single-family mortgage credit risk using the following principal strategies:

- Maintaining policies and procedures for new business activity, including prudent underwriting standards;
- Offering private investors new and innovative ways to share in the credit risk of the Core single-family book;
- Monitoring loan performance and characteristics for the single-family credit guarantee portfolio and individual sellers and servicers;
- Engaging in loss mitigation activities; and
- Managing foreclosure and REO activities.

Maintaining Policies and Procedures for New Business Activity, Including Prudent Underwriting Standards

We use a delegated underwriting process in connection with our acquisition of single-family loans whereby we set eligibility and underwriting standards and sellers represent and warrant to us that loans they sell to us meet these standards. Our eligibility and underwriting standards evaluate loans based on a number of characteristics, including those discussed in the "Monitoring Loan Performance and Characteristics for the Single-family Credit Guarantee Portfolio and Individual Sellers and Servicers" section below. We can exercise certain contractual remedies, including requiring repurchase of the loan, for loans that do not meet our standards.

Limits are established on the purchase of loans with certain higher risk characteristics. These limits are designed to balance our credit risk exposure with the facilitation of affordable housing in a responsible manner. Our purchase guidelines generally provide for a maximum original LTV ratio of 95%, with certain exceptions such as a maximum LTV ratio of 80% for cash-out refinance loans, and no maximum LTV ratio for fixed-rate HARP loans. In March 2015, we began to purchase certain loans with LTV ratios up to 97% under an initiative designed to serve a targeted segment of creditworthy borrowers. We fully discontinued purchases of Alt-A loans in 2009, interest-only loans in 2010, and option ARM loans in 2007.

The majority of our purchase volume is evaluated using our own proprietary underwriting software (Loan Prospector ("LP")), the seller's software, or Fannie Mae's software. During 2015 and 2014, 54% and 47%, respectively, of our purchase volume was evaluated using LP. The performance of non-LP loans is monitored to ensure compliance with our risk appetite.

We employ a quality control process to review loan underwriting documentation for compliance with our standards on a sample basis. Many delinquent loans and all loans that result in credit losses are also reviewed. Sellers may appeal ineligible loan determinations prior to repurchase of the loan. Our reviews of 2014 originations are largely complete, while our reviews of 2015 originations are ongoing. The average aggregate ineligible loan rate across all sellers for loans funded during 2014, 2013, and 2012, excluding HARP and other relief refinance loans, was approximately 1.1%, 1.4%, and 3.0%, respectively, based on reviews completed through 2015. The most common underwriting defect found in our review of loans funded during 2014 related to the delivery of insufficient income data.

We made changes in recent periods to standardize our quality control process and facilitate more timely reviews. These changes allow us to identify breaches of representations and warranties early in the life of

the loan. We also implemented new tools, such as our proprietary Quality Control Information Manager, to provide greater transparency into our customer quality control reviews. We also have a process of targeted quality control sampling reviews of loans with certain characteristics. In January 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the loans they sell us, including when the seller obtains relief from its obligation to repurchase loans due to breach of certain representations and warranties. Also, in October 2015, we announced Loan Advisor Suite, which is a set of integrated software applications designed to give lenders a way to originate and deliver high quality mortgage loans to us and to actively monitor representation and warranty relief earlier in the mortgage loan production process. Further enhancements are expected in 2016.

If we discover that the representations or warranties related to a loan were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB, reimburse us for losses realized with respect to the loan after consideration of any other recoveries, and/or indemnify us. At the direction of FHFA, we implemented a new remedies framework for the categorization of loan origination defects for loans with settlement dates on or after January 1, 2016. Among other items, the framework provides that "significant defects" will result in a repurchase request or a repurchase alternative, such as recourse or indemnification.

At the direction of FHFA, we made a number of changes to our representation and warranty framework for our purchases of conventional mortgage loans in recent years. FHFA may require further changes to the framework in the future. Under the revised framework, sellers are relieved of repurchase obligations for breaches of certain representations and warranties for certain types of loans, including:

- Loans with 36 months (12 months for relief refinance loans) of consecutive, on-time payments after purchase, subject to certain exclusions;
- Loans that have established an acceptable payment history; and
- Loans that have satisfactorily completed a quality control review.

As part of the revised framework, we also made changes that provide additional clarity on life-of-mortgage loan exclusions from repurchase relief. These changes are designed to provide sellers with a higher degree of certainty regarding their repurchase exposure and liability on loan sales to us.

In February 2016, at the direction of FHFA, we published guidelines for a new independent dispute resolution process for alleged breaches of representations and warranties on loans sold to us. Under the new process, a neutral third party resolves demands that remain unresolved after the existing appeal and escalation processes have been exhausted.

The tables below show the credit profile of the single-family loans we purchased or guaranteed in the last three years.

Weighted Average Original LTV Ratio

Weighted Average Credit Score

The table below contains additional information about the single-family loans we purchased or guaranteed in the last three years.

	Year Ended December 31,								
	2015			2014			2013		
(dollars in millions)	Amount	% of Total		Amount	% of Total		Amount	% of Total	
30-year or more amortizing fixed-rate	$262,209	75	%	$192,458	75	%	$287,773	68	%
20-year amortizing fixed-rate	16,470	5		8,677	4		21,658	5	
15-year amortizing fixed-rate	58,958	17		38,200	15		97,025	23	
Adjustable-rate	12,760	3		15,711	6		16,007	4	
FHA/VA and other governmental	163	—		207	—		279	—	
Total	$350,560	100	%	$255,253	100	%	$422,742	100	%
Percentage of purchases:									
With credit enhancements		23	%		25	%		17	%
Detached/townhome property type		92	%		92	%		93	%
Primary residence		90	%		88	%		88	%
Loan purpose:									
Purchase		44	%		52	%		27	%
Cash-out refinance		21	%		17	%		16	%
Other refinance		35	%		31	%		57	%

The table below contains additional detail on the relief refinance loans we purchased.

	Year Ended December 31,					
	2015			2014		
(UPB in millions)	UPB	Loan Count	Average Loan Size	UPB	Loan Count	Average Loan Size
Above 125% Original LTV	$569	3,766	$151,000	$1,439	8,794	$164,000
Above 100% to 125% Original LTV	2,043	11,784	$173,000	4,295	24,113	$178,000
Above 80% to 100% Original LTV	4,938	28,999	$170,000	8,356	49,340	$169,000
80% and below Original LTV	11,980	85,677	$140,000	13,204	96,409	$137,000
Total	$19,530	130,226	$150,000	$27,294	178,656	$153,000

Offering Private Investors New and Innovative Ways to Share in the Credit Risk of the Core Single-Family Book

Our Charter requires coverage by specified credit enhancements or participation interests on single-family loans with LTV ratios above 80% at the time of purchase. In addition to obtaining credit enhancements required by our Charter, we also enter into various other types of transactions in which we transfer mortgage credit risk to third parties.

We use the following types of credit enhancements to transfer a portion of the credit risk on a loan or group of loans at the time we acquire the loan.

- Primary mortgage insurance - Most of our loans with LTV ratios above 80% are protected by primary mortgage insurance. Primary mortgage insurance provides loan-level protection against default up to a specified amount and is typically paid for by the borrower. Generally, an insured loan must be in default and the borrower’s interest in the underlying property must have been extinguished, such as through a short sale or foreclosure, before a claim can be filed under a primary mortgage insurance policy. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount.
- Seller indemnification agreement - An agreement with a seller upon loan acquisition under which the seller will absorb a portion of the losses on the related single-family loans in exchange for a fee or a guarantee fee reduction. The indemnification amount may be fully or partially collateralized.
- Lender recourse and indemnification agreements - Require a lender to repurchase a loan upon default or to reimburse us for realized credit losses. Lender recourse and lender indemnification agreements are entered into as an alternative to requiring primary mortgage insurance or in exchange for a lower management and guarantee fee. We have not used lender recourse or lender indemnification agreements on a widespread basis in recent years.
- Pool insurance - Provides insurance on a group of loans up to a stated aggregate loss limit. We have not purchased pool insurance policies since 2008, and the majority of our pool insurance policies will expire in the next five years.

We also enter into the following types of credit risk transfer transactions subsequent to our purchase or guarantee of loans.

- STACR debt notes - Are unsecured debt obligations. We issue STACR debt notes related to certain notional credit risk positions to third-party investors. We make payments of principal and interest on the issued notes. The amount of principal that we are required to pay the STACR debt note investors is linked to the credit performance of certain loans (referred to as a reference pool) that we have

previously guaranteed. As a result, we are not required to repay principal to the extent that the notional credit risk position is reduced as a result of a specified credit event.

- ACIS insurance policies - Provide credit protection on a portion of the non-issued notional credit risk positions we retain in a STACR debt note transaction. We receive compensation from the insurance policy up to an aggregate limit when specified credit events occur.
- Whole loan security - We issue guaranteed senior securities and unguaranteed subordinated securities backed by certain single-family loans that we purchased previously. The unguaranteed subordinated securities will absorb first losses on the related loans. We retain a portion of the subordinated securities.

See "Our Business Segments - Single-Family Guarantee" for additional information on these credit risk transfer transactions.

The table below provides information on the credit-enhanced loans in our single-family credit guarantee portfolio. "Other" credit-enhanced loans include loans covered by our credit risk transfer transactions. The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary mortgage insurance and other credit protection.

	As of December 31,											
	2015				2014				2013			
(Percentage of portfolio based on UPB)	% of Portfolio		Serious Delinquency Rate		% of Portfolio		Serious Delinquency Rate		% of Portfolio		Serious Delinquency Rate	
Non-credit-enhanced	70	%	1.30	%	77	%	1.74	%	83	%	2.09	%
Credit-enhanced:												
Primary mortgage insurance	15	%	2.06	%	14	%	3.10	%	12	%	4.40	%
Other	20	%	0.58	%	12	%	1.21	%	5	%	3.66	%
Total	N/A		1.32	%	N/A		1.88	%	N/A		2.39	%

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of December 31, 2015 and 2014. The table includes all types of single-family credit enhancements.

	As of December 31, 2015					
(dollars in millions)	Total Current UPB	Total Protected UPB	Coverage Remaining	Collateralized Coverage Remaining [1]	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions[2]	
Core single-family book	$1,128,732	$441,426	$69,217	$13,015	23	%
HARP and other relief refinance book	302,564	33,900	9,272	—	—	%
Legacy single-family book	270,591	36,867	11,281	—	—	%
Total	$1,701,887	$512,193	$89,770	$13,015	18	%

	As of December 31, 2014					
(dollars in millions)	Total Current UPB	Total Protected UPB	Coverage Remaining	Collateralized Coverage Remaining [1]	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions[2]	
Core single-family book	$994,454	$300,379	$50,350	$6,011	13	%
HARP and other relief refinance book	331,059	37,804	10,339	—	—	%
Legacy single-family book	339,609	48,149	14,626	—	—	%
Total	$1,665,122	$386,332	$75,315	$6,011	8	%

(1) Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and unguaranteed whole loan securities, as well as cash and securities pledged for our benefit. All collateralized coverage relates to credit risk transfer transactions in the Core single-family book.

(2) Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification agreements, and whole loan securities. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

The table below provides information on estimated recoveries we could receive from our most significant credit risk transfer transactions (i.e., STACR debt notes and ACIS insurance policies) under various home price scenarios. The timing of our recognition of the recoveries in our statements of comprehensive income will depend on the type of credit risk transfer transaction and whether we are reimbursed based on calculated losses or actual losses, which may result in timing differences between the recognition of recoveries and the related credit event.

In estimating the recoveries from our STACR debt note and ACIS transactions, we performed a sensitivity analysis under three scenarios, based on our actual loss and prepayment experience related to loans that were originated during periods that experienced above average home price appreciation (47%), moderate home price appreciation (7%), and severe home price depreciation (-24%), over a four-year period. For this analysis, we grouped loans using LTV ratios and FICO scores and applied historical losses and prepayments experienced by these groups to similar groups within the reference pools related to our STACR debt note and ACIS transactions. Our recoveries were estimated based on

loan losses, net of mortgage insurance claim amounts. These are estimated projections prepared for illustrative purposes only. Our actual losses under the chosen scenarios could differ materially from these estimates. In

addition, these estimates do not include interest expense and transaction costs we incur to issue our STACR debt notes, and premiums we pay on ACIS transactions.

(dollars in millions)	As of December 31, 2015
UPB of loans covered by STACR debt notes and ACIS insurance policies	$328,872

	Performance Under Home Price Scenarios at December 31, 2015					
	Above Average Home Price Appreciation		Moderate Home Price Appreciation		Severe Home Price Depreciation	
	Amount	bps	Amount	bps	Amount	bps
Estimated credit losses	$199	6	$1,431	44	$10,679	325
Estimated recoveries from STACR debt notes and ACIS insurance policies	$66	2	$507	15	$7,993	243
Loss coverage ratio	33 %	N/A	35 %	N/A	75 %	N/A

Monitoring Loan Performance and Characteristics for the Single-family Credit Guarantee Portfolio and Individual Sellers and Servicers

We review loan performance, including delinquency statistics and loan characteristics in conjunction with housing market and economic conditions, to determine if our pricing and eligibility standards reflect the risk associated with the loans we purchase and guarantee. We review the payment performance of our loans to facilitate early identification of potential problem loans, which could inform our loss mitigation strategies. We also review performance metrics for additional loan characteristics that may expose us to concentrations of credit risk, including:

- Higher risk loan attributes and attribute combinations;
- Higher risk loan product types; and
- Geographic concentrations.

We actively monitor seller and servicer performance, including compliance with our standards, and periodically review their operational processes. We also periodically change seller/servicer guidelines based on the results of our mortgage portfolio monitoring, if warranted.

The credit quality of our single-family loan purchases remained strong during the past several years. The majority of our loan purchases over the last several years have been fixed-rate loans.

Single-Family Credit Guarantee Portfolio

Serious delinquency rates continued to decline across our total single-family credit guarantee portfolio in 2015 as economic conditions in many parts of the U.S. continued to improve. Improvement in home prices in many areas of the U.S. during 2015 generally led to improved current LTV ratios of the loans in our single-family credit guarantee portfolio as of December 31, 2015, which contributed to lower credit losses (excluding charge-offs related to the adoption of the FHFA advisory bulletin) and an improving overall credit profile.

The improvement in our serious delinquency rate in 2015 is primarily due to the better performance of newly acquired loans in the Core single-family book, continued loss mitigation and foreclosure activities for loans in the Legacy single-family book as well as sales of certain non-performing loans. The gradual reduction of our Legacy single-family book also contributed to the improvement in the serious delinquency

rate. However, we still have a large number of seriously delinquent loans relative to our historical experience.
Our loss mitigation activities may create fluctuations in our delinquency statistics. For example, loans in modification trial periods, loans subject to forbearance agreements, and loans in repayment plans continue to be reported as seriously delinquent. There may also be temporary lags in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency statistics.
The charts below show the credit losses and serious delinquency rates for each of our single-family books. Our Core single-family book and our HARP and other relief refinance book continue to perform well and account for a small percentage of our credit losses, as shown below. Our Legacy single-family book continues to decline as a percentage of our overall portfolio, but continues to account for the majority of our credit losses.
Portfolio Composition and Credit Losses

Serious Delinquency Rates as of December 31,

The table below provides credit quality information about our single-family books.

	December 31, 2015						
(dollars in billions)	UPB	Average Credit Score	Original LTV Ratio	Current LTV Ratio	Current LTV Ratio >100%	Foreclosure and Short Sale Rate[1]	Alt-A %
Core single-family book	$1,129	754	72 %	61 %	— %	0.15 %	— %
HARP and other relief refinance book	303	731	89 %	70 %	10 %	0.95 %	— %
Legacy single-family book	270	702	75 %	66 %	12 %	4.09 %	15 %
Total	$1,702	741	75 %	63 %	4 %	N/A	2 %

(1) The foreclosure and short sale rate presented for the Legacy single-family book represents the rate associated with loans originated in 2000 through 2008.

The table below contains a description of some of the loan characteristics we monitor in our single-family credit guarantee portfolio.

Characteristic	Description	Impact on Credit Quality
LTV Ratio	Ratio of the UPB of the loan to the value of the underlying property collateralizing the loan. Original LTV ratio is at loan origination, while current LTV ratio is based on the current UPB to the estimated current property value.	• Measures ability of the underlying property to cover our exposure on the loans • Higher LTV ratios indicate higher risk, as proceeds from sale of the property may not cover our exposure on the loans
Credit Score	Statistically-derived number used by lenders to assess a borrower's likelihood to repay debt. We primarily use FICO scores, which are currently the most commonly used credit scores.	• Borrowers with higher credit scores are generally more likely to repay or have the ability to refinance than those with lower scores • Credit scores presented in this Form 10-K are at the time of origination and may not be indicative of the borrowers' current creditworthiness
Loan Purpose	Indicates how the borrower intends to use the proceeds from a loan (i.e., purchase, cash-out refinance, or other refinance)	• Cash-out refinancings generally have had a higher risk of default than loans originated in purchase or other refinance transactions
Property Type	Indicates whether the property is a detached single-family house, townhouse, condominium, or co-op	• Detached single-family houses and townhouses are the predominant type of single-family property • Condominiums historically have experienced greater volatility in home prices than detached single-family houses, which may expose us to more risk
Occupancy Type	Indicates whether the borrower intends to use the property as a primary residence, second home, or investment property	• Loans on primary residence properties tend to have lower credit risk than loans on second homes or investment properties
Product Type	Indicates the type of loan based on key loan terms, such as the contractual maturity, type of interest rate, and payment characteristics of the loan	• Loan products that contain terms which result in scheduled changes in monthly payments may result in higher risk • Shorter loan terms result in faster repayment of principal and may indicate lower risk
Second Liens	Indicates whether the underlying property has more than one loan	• Second liens can increase the risk of default • Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so

The table below contains details on characteristics of the loans in our single-family credit guarantee portfolio as of December 31, 2015, 2014, and 2013.

	December 31,					
(percentage of portfolio based on UPB)	2015		2014		2013	
Original LTV Ratio Range						
60% and below	20	%	21	%	22	%
Above 60% to 80%	53	%	52	%	53	%
Above 80% to 100%	22	%	21	%	19	%
Above 100%	5	%	6	%	6	%
Portfolio weighted average original LTV ratio	75	%	75	%	75	%
Current LTV Ratio Range						
60% and below	43	%	39	%	33	%
Above 60% to 80%	37	%	37	%	38	%
Above 80% to 100%	16	%	18	%	19	%
Above 100%	4	%	6	%	10	%
Portfolio weighted average current LTV ratio	63	%	66	%	69	%
Credit Score						
740 and above	59	%	58	%	58	%
700 to 739	21	%	20	%	20	%
660 to 699	13	%	13	%	13	%
620 to 659	5	%	6	%	6	%
Less than 620	2	%	3	%	3	%
Portfolio weighted average credit score	741		740		739	
Loan Purpose						
Purchase	32	%	30	%	26	%
Cash-out refinance	21	%	21	%	22	%
Other refinance	47	%	49	%	52	%

In addition, at December 31, 2015, 2014, and 2013:

- More than 90% of our loans were secured by detached homes or townhomes;
- Approximately 90% of our loans were secured by properties used as the borrower’s primary residence; and
- More than 90% of our loans were fixed-rate.

At December 31, 2015, approximately 13% of our loans had second-lien financing by the originator or other third party at origination, and these loans comprised approximately 17% of our seriously delinquent loan population. It is likely that additional borrowers have post-origination second-lien financing.

Higher Risk Loan Attributes and Attribute Combinations

Certain of the loan attributes shown above may indicate a higher risk of default. In particular, loans with original LTV ratios over 90% and/or credit scores below 620 at origination may be higher risk. The table below provides information on loans in our portfolio with these characteristics. The table includes a presentation of each higher risk category in isolation. A single loan may fall within more than one category.

	December 31, 2015			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Original LTV ratio greater than 90%, HARP loans	$134.2	89%	1.3%	1.16%
Original LTV ratio greater than 90%, all other loans	$144.8	84%	8.4%	2.72%
Loans with credit scores below 620 at origination	$41.3	74%	20.7%	6.67%

	December 31, 2014			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Original LTV ratio greater than 90%, HARP loans	$149.0	96%	0.8%	1.18%
Original LTV ratio greater than 90%, all other loans	$123.2	87%	9.4%	3.97%
Loans with credit scores below 620 at origination	$44.9	79%	19.2%	8.57%

In addition, certain combinations of loan attributes can indicate an even higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following tables show the combination of credit score and current LTV ratio attributes of loans in our single-family credit guarantee portfolio.

	December 31, 2015								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified
Core single-family book:									
< 620	0.2%	2.32%	—%	4.71%	—%	14.84%	0.2%	2.74%	2.9%
620 to 659	1.3	1.05%	0.2	1.49%	—	7.80%	1.5	1.13%	1.2%
≥ 660	55.8	0.15%	8.7	0.28%	0.1	1.85%	64.6	0.17%	0.2%
Not available	—	1.58%	0.1	4.41%	—	9.97%	0.1	3.41%	3.1%
Total	57.3%	0.18%	9.0%	0.34%	0.1%	3.49%	66.4%	0.21%	0.2%
Relief refinance book:									
< 620	0.6%	1.65%	0.2%	3.06%	0.1%	4.65%	0.9%	2.38%	3.4%
620 to 659	0.7	1.03%	0.4	2.12%	0.2	3.31%	1.3	1.60%	2.0%
≥ 660	10.7	0.29%	3.4	1.02%	1.5	1.85%	15.6	0.56%	0.6%
Not available	—	1.37%	—	—%	—	5.08%	—	1.47%	0.6%
Total	12.0%	0.40%	4.0%	1.25%	1.8%	2.20%	17.8%	0.72%	0.8%
Legacy single-family book									
< 620	0.8%	6.57%	0.3%	13.74%	0.2%	21.39%	1.3%	9.09%	30.7%
620 to 659	1.5	4.73%	0.5	10.85%	0.4	17.73%	2.4	6.82%	25.0%
≥ 660	8.5	1.99%	2.2	7.26%	1.2	12.84%	11.9	3.08%	11.6%
Not available	0.2	5.12%	—	17.07%	—	21.12%	0.2	5.95%	13.5%
Total	11.0%	2.74%	3.0%	8.66%	1.8%	15.03%	15.8%	4.12%	14.9%

(credit score)	As of December 31, 2014								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified
Core single-family book:									
< 620	0.2 %	2.77 %	— %	5.05 %	— %	16.43 %	0.2 %	3.34 %	2.5 %
620 to 659	1.0	1.21 %	0.2	2.11 %	—	7.48 %	1.2	1.38 %	1.1 %
≥ 660	50.3	0.16 %	7.9	0.39 %	0.1	2.14 %	58.3	0.19 %	0.1 %
Not available	0.1	1.64 %	—	3.93 %	—	10.06 %	0.1	3.77 %	2.1 %
Total	51.6 %	0.19 %	8.1 %	0.47 %	0.1 %	3.75 %	59.8 %	0.24 %	0.2 %
Relief refinance book:									
< 620	0.4 %	1.85 %	0.3 %	3.10 %	0.2 %	4.15 %	0.9 %	2.63 %	2.3 %
620 to 659	0.7	1.12 %	0.4	2.02 %	0.3	2.86 %	1.4	1.71 %	1.3 %
≥ 660	10.5	0.28 %	4.5	0.90 %	2.6	1.53 %	17.6	0.58 %	0.4 %
Not available	—	1.79 %	—	— %	—	1.04 %	—	1.25 %	0.4 %
Total	11.6 %	0.38 %	5.2 %	1.11 %	3.1 %	1.83 %	19.9 %	0.75 %	0.5 %
Legacy single-family book									
< 620	0.8 %	7.93 %	0.4 %	15.58 %	0.4 %	23.56 %	1.6 %	11.29 %	27.1 %
620 to 659	1.6	5.71 %	0.7	12.36 %	0.6	20.05 %	2.9	8.66 %	21.7 %
≥ 660	10.2	2.26 %	3.2	8.11 %	2.2	14.31 %	15.6	3.90 %	9.6 %
Not available	0.2	5.75 %	—	18.51 %	—	25.47 %	0.2	6.96 %	11.4 %
Total	12.8 %	3.13 %	4.3 %	9.62 %	3.2 %	16.56 %	20.3 %	5.13 %	12.5 %

Higher Risk Loan Product Types

There are several types of loan products that contain terms which result in scheduled changes in the borrower’s monthly payments after specified initial periods, such as interest-only and option ARM loans. These products may result in higher credit risk because the payment changes typically increase the borrower’s monthly payment, resulting in a higher risk of default. The majority of these loans are in our Legacy single-family book. Only a small percentage of our Core single-family book consists of ARM loans.

The balance of interest-only and option ARM loans declined significantly in recent years as many of these borrowers have repaid or refinanced their loans, received loan modifications, or completed foreclosure alternatives or foreclosure transfers.

While we have not categorized option ARM loans as either subprime or Alt-A for presentation in this Form 10-K and elsewhere in our reporting, they could exhibit similar credit performance to collateral identified as subprime or Alt-A. For reporting purposes, loans within the option ARM category continue to be presented in that category following a modification of the loan, even though the modified loan no longer provides for optional payment provisions.

The table below provides credit characteristic information on higher risk loan product types.

	December 31, 2015			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Amortizing ARM and option ARM[(1)]	$71.5	56 %	1.6 %	1.61 %
Interest-only	$22.0	80 %	0.1 %	6.02 %
Step-rate modified	$38.3	85 %	100 %	7.34 %

	December 31, 2014			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Amortizing ARM and option ARM[(1)]	$75.3	60 %	1.5 %	2.28 %
Interest-only	$27.8	87 %	0.2 %	9.36 %
Step-rate modified	$42.3	93 %	100 %	9.20 %

(1) Includes $5.0 billion and $5.7 billion in UPB of option ARM loans as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the option ARM loans had: (a) current LTV ratios of 71% and 79%, (b) loan modification percentages of 14.0% and 12.5%; and (c) serious delinquency rates of 8.01% and 9.87%, respectively.

The table below shows the timing of scheduled payment changes for certain types of loans within our single-family credit guarantee portfolio. The amounts in the table below are aggregated by product type and categorized by the year in which the loan will experience a payment change. The timing of the actual payment change may differ from that presented in the table due to a number of factors, including if the borrower refinances the loan. Loans where the year of first payment change is 2015 or prior have already had one or more payment changes as of December 31, 2015; loans where the year of first payment change is 2016 or later have not had a payment change as of December 31, 2015 and will not experience a payment change until a future period. Step-rate modified loans are shown in each year that the borrower will experience a scheduled interest-rate increase; therefore, a single loan may be included in multiple periods. However, the total of step-rate loans in the table reflects the ending UPB of such loans as of December 31, 2015.

	December 31, 2015							
(in millions)	2015 and Prior	2016	2017	2018	2019	2020	Thereafter	Total[(1)]
ARM/amortizing	$16,451	$3,505	$3,984	$4,712	$8,297	$9,653	$19,436	$66,038
ARM/interest-only	9,291	2,938	4,697	1,916	110	254	—	19,206
Fixed/interest-only	80	399	1,817	395	6	4	120	2,821
Step-rate modified	16,926	24,318	25,895	17,184	6,151	4,431	2,616	38,343
Total	$42,748	$31,160	$36,393	$24,207	$14,564	$14,342	$22,172	$126,408

(1) Excludes mortgage loans underlying certain other securitization products, since the payment change information is not available to us for these loans.

We believe that the performance of these types of loans has been more affected by macroeconomic conditions, such as unemployment rates and cumulative home price declines in many geographic areas since 2006, than by the increase in the borrower’s monthly payment. However, we continue to monitor the performance of these loans as many have experienced a payment change or are scheduled to have a payment change in 2016 or 2017, which is likely to subject the borrowers to higher monthly payments. Since a substantial portion of these loans were originated in 2005 through 2008 and are located in geographic areas that were most affected by declines in home prices that began in 2006, we believe that the serious delinquency rate for these types of loans will remain high in 2016.

Other Higher Risk Loans - Alt-A and Subprime Loans

While we have referred to certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-K, there is no universally accepted definition of subprime or Alt-A, and the classification of such loans may differ from company to company. For example, some financial institutions may use credit scores to delineate certain residential loans as subprime. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately $1.5 billion and $1.7 billion of security collateral underlying our other securitization products at December 31, 2015 and 2014, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continued to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, part of our relief refinance initiative, or part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-K and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to December 31, 2015, we have purchased approximately $32.8 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $1.6 billion in 2015.

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

	December 31, 2015				December 31, 2014			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$40.2	77 %	23.1 %	6.32 %	$48.3	82 %	19.9 %	8.53 %

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during 2015 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida, and Nevada.

Geographic Concentrations

We purchase mortgage loans from across the U.S. and maintain a geographically diverse portfolio. However, local economic conditions can affect borrowers' ability to repay and the value of the underlying

collateral, leading to concentrations of credit risk in certain geographic areas.

The following table presents certain geographic concentrations in our single-family credit guarantee portfolio. The states presented below had the largest number of seriously delinquent loans as of December 31, 2015. See Note 13 for additional information on the concentration of credit risk in our single-family credit guarantee portfolio.

	As of December 31, 2015			Full	As of December 31, 2014			Full	As of December 31, 2013			Full
(dollars in millions)	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Year 2015 Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Year 2014 Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Year 2013 Credit Losses
Florida	14,070	10 %	2.16 %	$867	25,656	13 %	3.92 %	$1,079	42,948	17 %	6.44 %	$1,374
New York	13,981	10	2.94 %	568	19,462	10	4.06 %	170	21,459	8	4.41 %	48
New Jersey	11,978	9	3.90 %	702	16,960	8	5.49 %	244	19,306	8	6.20 %	115
Illinois	8,841	6	1.62 %	388	11,902	6	2.17 %	403	15,521	6	2.79 %	625
California	7,669	5	0.60 %	219	11,386	6	0.92 %	201	15,620	6	1.30 %	594
All Others	83,182	60	1.12 %	2,036	112,700	57	1.52 %	1,822	137,907	55	1.85 %	2,032
Total	139,721	100 %	1.32 %	$4,780	198,066	100 %	1.88 %	$3,919	252,761	100 %	2.39 %	$4,788

The following table presents our single-family charge-offs and recoveries in each geographic region. See "Single-Family Credit Guarantee Portfolio" in Note 13 for a description of these regions.

	Year Ended December 31,								
	2015			2014			2013		
(in millions)	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
Northeast	$2,093	$(207)	$ 1,886	$1,138	$(238)	$ 900	$1,357	$(656)	$ 701
Southeast	1,294	(204)	1,090	1,703	(393)	1,310	3,015	(1,331)	1,684
North Central	869	(149)	720	1,018	(259)	759	1,870	(810)	1,060
West	701	(105)	596	875	(283)	592	2,589	(1,271)	1,318
Southwest	206	(52)	154	238	(85)	153	394	(245)	149
Total	$5,163	$(717)	$ 4,446	$4,972	$(1,258)	$ 3,714	$9,225	$(4,313)	$ 4,912

The table below presents the concentration of loans in each geographic region by current LTV ratio.

	December 31, 2015							
	CLTV Ratio <= 80%		CLTV Ratio > 80% to 100%		CLTV Ratio > 100%		All Loans	
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate
North Central	13 %	0.73 %	3 %	1.91 %	1 %	6.23 %	17 %	1.13 %
Northeast	20	1.28 %	5	3.55 %	1	13.35 %	26	2.04 %
Southeast	12	1.08 %	3	2.54 %	1	7.15 %	16	1.57 %
Southwest	10	0.76 %	2	1.45 %	—	6.47 %	12	0.88 %
West	25	0.52 %	3	1.96 %	1	5.34 %	29	0.79 %
Total	80 %	0.87 %	16 %	2.41 %	4 %	8.08 %	100 %	1.32 %

	December 31, 2014							
	CLTV Ratio <= 80%		CLTV Ratio > 80% to 100%		CLTV Ratio > 100%		All Loans	
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate
North Central	12 %	0.86 %	4 %	2.37 %	1 %	6.77 %	17 %	1.48 %
Northeast	20	1.67 %	5	4.98 %	1	15.21 %	26	2.81 %
Southeast	11	1.44 %	3	3.28 %	2	9.27 %	16	2.40 %
Southwest	10	0.96 %	2	2.06 %	—	6.98 %	12	1.16 %
West	23	0.67 %	4	2.70 %	2	6.23 %	29	1.23 %
Total	76 %	1.13 %	18 %	3.21 %	6 %	9.06 %	100 %	1.88 %

Credit Losses and Recoveries

Charge-offs were higher in 2015 than in 2014 primarily due to our adoption on January 1, 2015 of an FHFA advisory bulletin that changed when we deem a loan to be uncollectible. We expect the level of charge-offs in 2016 to be lower than 2015 as we continue our loss mitigation activities and our efforts to sell seriously delinquent single-family loans. See "Change in Estimate" in Note 1 for information about our adoption of the FHFA advisory bulletin and its effect on charge-offs and credit losses.

The tables below contain certain credit performance metrics of our single-family credit guarantee portfolio.

	Year Ended December 31,		
(dollars in millions)	2015	2014	2013
Charge-offs, gross	$5,163	$4,972	$9,225
Recoveries	(717)	(1,258)	(4,313)
Charge-offs, net	4,446	3,714	4,912
REO operations expense (income)	334	205	(124)
Total credit losses	$4,780	$3,919	$4,788
Total credit losses (in bps)	28.1	23.4	28.8

	As of December 31,		
	2015	2014	2013
Payment Status:			
One month past due	1.37 %	1.52 %	1.73 %

Two months past due	0.42	%	0.49	%	0.57	%
Seriously delinquent	1.32	%	1.88	%	2.39	%

Credit loss recoveries during 2015, 2014, and 2013 included $0 billion, $0.3 billion, and $2.1 billion, respectively, related to settlement agreements with certain sellers that released specified loans from

certain repurchase obligations in exchange for one-time cash payments. We recognized recoveries from primary mortgage insurance (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of $0.5 billion, $0.7 billion, and $1.5 billion that reduced our charge-offs of single-family mortgage loans during 2015, 2014, and 2013, respectively. We also recognized recoveries from primary mortgage insurance of $76 million, $180 million, and $196 million during 2015, 2014, and 2013, respectively, as part of REO operations (expense) income.

Our credit losses and seriously delinquent loan population are concentrated in the Legacy single-family book. In addition, our credit losses and seriously delinquent loan population are also concentrated within loans having certain characteristics, as shown in the table below. These categories are not mutually exclusive; for example, an Alt-A loan can be associated with a property located in a judicial foreclosure state and/or have a current LTV ratio of greater than 100%. Additional detail on loans in judicial foreclosure states is presented in the "Managing Foreclosure and REO Activities" section.

	December 31, 2015		Year Ended December 31, 2015	December 31, 2014		Year Ended December 31, 2014
	% of Portfolio	Serious Delinquency Rate	% of Credit Losses	% of Portfolio	Serious Delinquency Rate	% of Credit Losses
CLTV > 100%	4 %	8.08 %	49 %	6 %	9.06 %	61 %
Alt-A loans	2 %	6.32 %	23 %	3 %	8.53 %	16 %
Judicial foreclosure states	39 %	1.84 %	70 %	40 %	2.61 %	68 %

Loan Loss Reserves

Our loan loss reserves continued to decline in recent years, consistent with the decline in our serious delinquency rate. Although the housing market continued to improve in many geographic areas in 2015, we expect that our loan loss reserves may remain elevated for an extended period because a significant portion of our reserves is associated with interest rate concessions related to performing TDRs, which will decrease over time as borrowers make payments under the terms of their modified loans. Additionally, the resolution of certain seriously delinquent loans takes considerable time, often several years in the case of foreclosure.

The table below summarizes our single-family loan loss reserves activity.

	Year Ended December 31,				
(dollars in millions)	2015	2014	2013	2012	2011
Beginning balance	$21,793	$24,578	$30,508	$38,916	$39,098
Provision (benefit) for credit losses	(2,639)	113	(2,247)	2,013	10,898
Charge-offs, gross	(5,071)	(4,892)	(8,995)	(13,520)	(14,735)
Recoveries	717	1,258	4,313	2,262	2,764
Transfers, net	548	736	999	837	891
Ending balance	$15,348	$21,793	$24,578	$30,508	$38,916
As a percentage of our single-family credit guarantee portfolio	0.90 %	1.31 %	1.49 %	1.86 %	2.23 %

TDRs and Individually Impaired Loans

Single-family loans that have been individually evaluated for impairment, such as modified loans, generally have a higher associated loan loss reserve than loans that have been collectively evaluated for impairment. Due to the large number of loan modifications completed in recent years, a significant portion of our loan loss reserves is attributable to individually impaired single-family loans. The reserves associated with individually impaired loans, which comprised approximately 67% of the loan loss reserves for single-family loans as of December 31, 2015, largely reflect interest rate concessions for the borrower. Most of our modified single-family loans, including TDRs, were current and performing at December 31, 2015. We expect our loan loss reserve associated with existing single-family TDRs to continue to decline over time as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.

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

	2015		2014	
(dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, beginning balance	539,590	$94,401	514,497	$92,505
New additions	59,887	8,227	84,334	12,581
Repayments and reclassifications to held-for-sale	(69,720)	(13,975)	(33,104)	(6,218)
Foreclosure transfers and foreclosure alternatives	(17,871)	(2,789)	(26,137)	(4,467)
TDRs, ending balance	511,886	85,864	539,590	94,401
Loans impaired upon purchase	9,535	678	9,949	741
Total impaired loans with specific reserve	521,421	86,542	549,539	95,142
Allowance for loan losses		(14,019)		(17,837)
Net investment, at December 31,		$72,523		$77,305

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

	December 31,				
(in millions)	2015	2014	2013	2012	2011
TDRs on accrual status	$82,026	$82,373	$78,033	$65,784	$44,440
Non-accrual loans	22,460	32,745	42,829	61,517	74,686
Total TDRs and non-accrual loans	$104,486	$115,118	$120,862	$127,301	$119,126
Loan loss reserves associated with:					
TDRs on accrual status	$12,105	$13,728	$14,239	$12,430	$11,595
Non-accrual loans	2,677	6,935	8,805	14,602	20,770
Total	$14,782	$20,663	$23,044	$27,032	$32,365

	Year Ended December 31,				
(in millions)	2015	2014	2013	2012	2011
Foregone interest income on TDRs and non-accrual loans[1]	$2,690	$3,235	$3,552	$4,126	$4,369

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

Engaging in Loss Mitigation Activities

Servicers perform loss mitigation activities as well as foreclosures on loans that they service for us. Our loss mitigation strategy emphasizes early intervention by servicers in delinquent loans and offers alternatives to foreclosure by providing servicers with default management programs designed to manage non-performing loans more effectively and to assist borrowers in maintaining home ownership or to facilitate foreclosure alternatives. In recent years, our ability to engage in loss mitigation activities has been adversely affected by delays, including those due to increases in foreclosure process timeframes, general constraints on servicer capacity that affect the rate at which servicers modify or foreclose upon loans, and court backlogs in states that require a judicial foreclosure process.

We offer a variety of borrower assistance programs, including refinance programs for certain eligible loans and loan workout activities for struggling borrowers. Our loan workouts include both home retention options and foreclosure alternatives. We also engage in transfers of servicing on and sales of non-performing loans.

The relief refinance program (including HARP) and HAMP, which are discussed below, will end in December 2016. However, pursuant to the 2016 Conservatorship Scorecard, we are developing loss mitigation options for borrowers, including loan modifications, and a refinance program for loans with high LTV ratios.

We are the compliance agent for Treasury for certain foreclosure avoidance activities under HAMP. Among other duties, as the program compliance agent, we conduct examinations and review servicer compliance with the published requirements for the program.

Relief Refinance Program

As part of our loss mitigation activities, servicers contact borrowers that are eligible for the relief refinance initiative. In recent years, our relief refinance program has been one of our more significant borrower assistance programs. Our relief refinance initiative allows eligible homeowners whose loans we already own or guarantee to refinance with more favorable terms (such as reduction in payment, reduction in interest rate, extension of amortization term, or movement to a more stable loan) and without the need to obtain additional mortgage insurance. Our relief refinance program includes HARP, the portion of our relief refinance initiative for loans with LTV ratios above 80%.

The following table includes information about the performance of our relief refinance mortgage portfolio.

	As of December 31,					
	2015			2014		
(dollars in millions)	UPB	Loan Count	SDQ Rate	UPB	Loan Count	SDQ Rate
Above 125% Original LTV	$28,241	157,035	1.38 %	$30,233	162,299	1.36 %
Above 100% to 125% Original LTV	59,305	323,795	1.20 %	66,091	346,220	1.19 %
Above 80% to 100% Original LTV	97,375	567,201	0.86 %	109,618	609,239	0.93 %
80% and below Original LTV	117,677	942,183	0.36 %	125,158	957,435	0.36 %
Total	$302,598	1,990,214	0.72 %	$331,100	2,075,193	0.75 %

These loans have continued to perform well relative to loans with similar characteristics in the Legacy single-family book.

Loan Workout Activities

When refinancing is not practicable, we require our servicers first to evaluate the loan for a forbearance agreement, repayment plan or loan modification, because our level of recovery on a loan that reperforms is often much higher than for a loan that proceeds to a foreclosure alternative or foreclosure. We offer the following types of home retention options:

- Forbearance agreements - Arrangements that require reduced payments during a defined period, generally less than one year, to allow borrowers to return to compliance with the original mortgage terms or to implement another loan workout. For agreements completed in 2015, the average time period for reduced payments was between three and four months.
- Repayment plans - Contractual plans designed to repay past due amounts to allow borrowers to return to compliance with the original mortgage terms. For plans completed in 2015, the average time period to repay past due amounts was approximately four months.
- Loan modifications - Contractual plans that may involve changing the terms of the loan, adding outstanding indebtedness, such as delinquent interest, to the UPB of the loan, or a combination of both, including principal forbearance, but not principal forgiveness. We offer two main types of loan modifications:

HAMP loan modifications - The goal of a HAMP loan modification is to reduce the borrower’s monthly mortgage loan payment to 31% of gross monthly income. HAMP is available for loans originated on or before January 1, 2009. A borrower may receive only one HAMP modification. HAMP modifications contain the following features:

- Trial period - HAMP requires completion of a trial period of at least three months, during which the borrower makes monthly payments based on the modified terms of the loan, prior to receiving the final modification. Borrowers who fail to complete the trial period are considered for our other workout activities.
- Incentive payments - Borrowers receive monthly incentive payments in the form of credits to reduce the principal balance of their loans by up to $1,000 per year, for five years, as long as they are making timely payments under the modified loan terms. Servicers are paid incentive fees for each completed HAMP modification. We bear the costs of these incentives and are not reimbursed by Treasury, except as discussed below.
- Newly introduced incentive program - In January 2015, at the instruction of FHFA, we implemented an additional $5,000 incentive program for eligible borrowers who remain in good standing through the sixth year of their HAMP loans. The incentive is applied toward reducing the borrowers' outstanding loan balance. Treasury will pay this incentive on the majority of our eligible HAMP modified loans. Incentive payments began in late 2015. Servicers are required to offer the borrowers who receive incentive payments an opportunity to modify their loan by reamortizing the UPB over the remaining term of the loan, which could lower the borrowers’ monthly principal and interest payments and further reduce the risk of borrower default.

Non-HAMP loan modifications - Primarily consist of our standard non-HAMP modification program and a streamlined modification initiative for certain eligible borrowers. Each of these programs requires completion of a trial period of at least three months prior to receiving the modification. If a borrower fails to complete the trial period, the loan is considered for our other workout activities. The streamlined modification offers eligible borrowers the same loan terms as the non-HAMP standard modification, including an extension of the loan’s term to 480 months and a fixed interest rate. Servicers are paid incentive fees for each completed non-HAMP modification,

but these programs do not include any borrower incentive payments. Loans may generally be modified three times under our non-HAMP loan modification programs, but only once during a 12 month period. In June 2015, we announced that we are extending our streamlined modification program indefinitely. In July 2015, we implemented a new modification initiative to help reduce the risk of default on step-rate modified loans under HAMP. Under this initiative, eligible borrowers with a step-rate modified loan will be evaluated for either a non-HAMP standard modification or a non-HAMP streamlined modification. In September 2015, we announced changes designed to expand the pool of borrowers eligible to participate in our modification programs.

When a seriously delinquent single-family loan cannot be resolved through a home retention option, we typically seek to pursue a foreclosure alternative or sale of the non-performing loan. We offer the following types of foreclosure alternatives:

- Short sale - The borrower sells the property for less than the total amount owed under the terms of the loan. A short sale is preferable to a borrower because we provide limited relief to the borrower from repaying the entire amount owed on the loan and, in some cases, we also provide cash relocation assistance, while allowing the borrower to exit the home in an orderly manner. A short sale allows Freddie Mac to avoid the costs we would otherwise incur to complete the foreclosure and subsequently sell the property.
- Deed in lieu of foreclosure - The borrower voluntarily agrees to transfer title of the property to us without going through formal foreclosure proceedings.

We discuss sales of non-performing loans below in "Servicing Transfers and Sales of Non-Performing Loans."

Our loan modification volume declined during 2015 compared to 2014, primarily due to lower volumes of seriously delinquent loans. As of December 31, 2015, the borrower’s monthly payment for all of our completed HAMP modifications was reduced on average by an estimated $527 at the time of modification, which amounts to an average of $6,323 per year, and a total of $1.6 billion in annual reductions (as calculated by multiplying the number of completed modifications by the average reduction in annual payment, without adjustment for actual loan performance following modification). In recent years, our non-HAMP modifications represented the majority of our modification volume. The portion of our modification volume that is HAMP-related continued to decline in 2015 primarily due to the decline in the number of borrowers eligible for HAMP. We incurred $69 million and $112 million of servicer incentive expenses on modified loans during 2015 and 2014, respectively.

The volume of foreclosures has moderated in recent periods, primarily due to declining volumes of seriously delinquent loans, the success of our loan workout programs, and our sales of non-performing loans. The volume of our short sale transactions declined in 2015 compared to 2014, continuing the trend in recent periods. Similarly, the volume of short sales in the overall market also declined in recent periods as home prices have continued to increase.

The following graphs provide detail about our single-family loan workout activities and foreclosures.

Home Retention Actions

Foreclosure Alternatives and Foreclosures

The table below contains credit characteristic data on our single-family modified loans.

	December 31, 2015						
(dollars in billions)	UPB	% of Portfolio		CLTV Ratio		SDQ Rate	
HAMP	$40.5	2	%	85	%	7.54	%
Non-HAMP	43.0	3		88	%	12.90	%
Total	$83.5	5	%	86	%	10.54	%

	December 31, 2014						
(dollars in billions)	UPB	% of Portfolio		CLTV Ratio		SDQ Rate	
HAMP	$44.9	3	%	93	%	9.61	%
Non-HAMP	40.2	2		94	%	14.77	%
Total	$85.1	5	%	93	%	12.28	%

The table below contains information about the payment performance of modified loans in our single-family credit guarantee portfolio, based on the number of loans that were current or paid off one year and, if applicable, two years after modification.

	Quarter of Loan Modification Completion							
	4Q 2014	3Q 2014	2Q 2014	1Q 2014	4Q 2013	3Q 2013	2Q 2013	1Q 2013
Current or paid off one year after modification:								
HAMP	80 %	80 %	79 %	82 %	81 %	80 %	80 %	82 %
Non-HAMP	65 %	66 %	68 %	71 %	70 %	73 %	74 %	76 %
Total	67 %	69 %	70 %	74 %	72 %	75 %	76 %	78 %
Current or paid off two years after modification:								
HAMP	N/A	N/A	N/A	N/A	79 %	78 %	78 %	79 %
Non-HAMP	N/A	N/A	N/A	N/A	68 %	71 %	71 %	72 %
Total	N/A	N/A	N/A	N/A	70 %	73 %	73 %	74 %

Our HAMP modifications continue to perform better than our non-HAMP modifications. As shown in the table above, the one-year performance of our non-HAMP modified loans has declined in comparison to the performance of our HAMP modified loans. This decline in performance may be attributable to features of our streamlined modification, which in contrast to our other types of loan modifications include no documentation requirements, and include borrowers who may have previously defaulted on a HAMP modification.

Servicing Transfers and Sales of Non-Performing Loans

From time to time, we facilitate the transfer of servicing for certain groups of loans that are delinquent or are deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the loans. See "Sellers and Servicers" in Institutional Credit Risk below for additional information on these activities.

During 2015 and 2014, we completed sales of $2.9 billion and $0.6 billion, respectively, in UPB of seriously delinquent single-family loans. Of the $7.7 billion in UPB of single-family loans classified as held-for-sale at December 31, 2015, $5.7 billion related to loans that were seriously delinquent. We believe the sale of these loans provides better economic returns than continuing to hold them. The FHFA requirements guiding these transactions, including bidder qualifications, loan modifications, and performance reporting, are designed to improve borrower outcomes.

Managing Foreclosure and REO Activities

In a foreclosure, we may acquire the underlying property and later sell it, using the proceeds of the sale to reduce our losses.

We typically acquire properties as a result of borrower defaults and subsequent foreclosures on loans that we own or guarantee. We evaluate the condition of, and market for, newly acquired REO properties to determine if repairs are needed, determine occupancy status and whether there are legal or other issues to be addressed, and determine our sale or disposition strategy. When we sell an REO property, we typically provide an initial period where we consider offers by owner occupants and others before offers by investors. We also consider alternative disposition processes, such as REO auctions, bulk sales

channels, and partnering with locally-based entities to facilitate dispositions.
In recent years, the volume of REO acquisitions has been significantly affected by 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. As of December 31, 2015 and 2014, the percentage of seriously delinquent loans that have been delinquent for more than six months was 64% and 69%, respectively.
Delays in Foreclosure Process and Average Foreclosure Completion Timelines
Our serious delinquency rates and credit losses continue to be adversely affected by delays in the foreclosure process in states where a judicial foreclosure is required. Foreclosures generally take longer to complete in such states, resulting in concentrations of delinquent loans in those states, as shown in the table below. At December 31, 2015, loans in states with a judicial foreclosure process comprised 39% of our single-family credit guarantee portfolio.
The table below presents the length of time our loans have been seriously delinquent, by jurisdiction type.

	As of December 31,								
	2015			2014			2013		
	Loan Count	Percent		Loan Count	Percent		Loan Count	Percent	
Aging, by locality:									
Judicial states:									
<= 1 year	40,265	29	%	50,138	25	%	59,129	23	%
> 1 year and <= 2 years	16,199	12		21,919	11		30,604	12	
> 2 years	28,265	20		48,984	25		65,154	26	
Non-judicial states:									
<= 1 year	38,010	27		49,657	25		60,175	24	
> 1 year and <= 2 years	8,660	6		12,989	7		17,968	7	
> 2 years	8,322	6		14,379	7		19,731	8	
Combined:									
<= 1 year	78,275	56		99,795	50		119,304	47	
> 1 year and <= 2 years	24,859	18		34,908	18		48,572	19	
> 2 years	36,587	26		63,363	32		84,885	34	
Total	139,721	100	%	198,066	100	%	252,761	100	%

The longer a loan remains delinquent, the greater the associated costs we incur. Loans that remain delinquent for more than one year are more challenging to resolve as many of these borrowers may not be in contact with the servicer, may not be eligible for loan modifications, or may determine that it is not economically beneficial for them to enter into a loan modification due to the amount of costs incurred on their behalf while the loan was delinquent. 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 number of our single-family loans delinquent for more than one year declined 37% during 2015.
Our servicing guidelines do not allow initiation of 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. In September 2015, we announced an extension of foreclosure timelines in our guidelines for 34 states or other jurisdictions. Our servicing 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.

During 2015, a significant number of loans that had been subject to delays and that had been delinquent for more than a year completed the foreclosure process, which caused the total average time for foreclosure completions to increase compared to 2014, as shown in the table below.

The table presents average completion times for foreclosures of our single-family loans.

	Year Ended December 31,		
(average days)	2015	2014	2013
Judicial states:			
Florida	1,332	1,311	1,226
New Jersey	1,602	1,372	1,228
New York	1,553	1,325	1,120
All other judicial states	828	796	772
Judicial states, in aggregate	1,076	1,031	952
Non-judicial states, in aggregate	637	636	575
Total	892	867	774

We believe that our average foreclosure timeline is likely to remain elevated in the near term due to the backlog of loans that have been delinquent for more than one year, particularly in the judicial states of Florida, New Jersey, and New York.

In recent periods, third-party sales at foreclosure auction comprised a higher proportion of our foreclosure transfers. Third-party sales at foreclosure auction allow us to avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition.

Our REO inventory declined in 2015 primarily due to REO dispositions exceeding our acquisitions. REO acquisitions continue to decline due to a declining number of seriously delinquent loans and a larger proportion of property sales to third parties at foreclosure.

We expect the rate of decline in our REO inventory will slow as a larger portion of newly acquired REO properties are older, low value, and rural properties which are more challenging to market and sell. In addition, legal-related delays (i.e., redemption periods and eviction procedures) and a business strategy to repair more homes affect significant portions of our REO inventory, resulting in extended holding periods. As our REO inventory declines, we would expect REO dispositions to decline as well.

The table below shows our single-family REO activity.

	Year Ended December 31,		
(number of properties)	2015	2014	2013
Inventory, beginning of the period	25,768	47,307	49,071
Acquisitions	23,171	42,265	70,681
Dispositions	(31,935)	(63,804)	(72,445)
Inventory, end of the period	17,004	25,768	47,307

Severity Ratios

Severity ratios are the percentages of our realized losses when loans are resolved by the completion of foreclosures (and subsequent third-party sales or REO dispositions) or foreclosure alternatives (e.g., short sales). Severity ratios are calculated as the amount of our recognized losses divided by the aggregate UPB of the related loans. The amount of recognized losses 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 capitalized repair and selling expenses, if applicable.

The table below presents single-family severity ratios.

	Year Ended December 31,					
	2015		2014		2013	
REO dispositions and third-party foreclosure sales	34.3	%	34.2	%	36.1	%
Short sales	30.1	%	31.6	%	36.0	%

Our severity ratios have remained relatively stable during 2015 compared to 2014. These severity ratios are influenced by several factors, including the geographic location of the property and the related selling expenses for REO dispositions and short sales.

REO Property Status

A significant portion of our REO properties are unable to be marketed at any given time because the properties are occupied, under repair, or subject to a redemption period, which is a post-foreclosure period during which borrowers may reclaim a foreclosed property. Redemption periods can increase the average holding period of our inventory, and have done so in recent years. As of December 31, 2015, approximately 50% of our REO properties were unable to be marketed because the properties were occupied, under repair, or located in states with a redemption period, and 12% of the properties were being evaluated for listing and determination of our sales or disposition strategy. As of December 31, 2015, approximately 25% of our REO properties were listed and available for sale, and 13% of our inventory was pending the settlement of sales. Though it varied significantly in different states, the average holding period of our single-family REO properties, excluding any redemption period, was 255 days and 226 days for our REO dispositions during 2015 and 2014, respectively.

MULTIFAMILY MORTGAGE CREDIT RISK

We manage our exposure to multifamily mortgage credit risk using the following principal strategies:

- Maintaining policies and procedures for new business activity, including prudent underwriting standards;
- Transferring the vast majority of expected credit losses to third parties through K Certificates and similar securitizations; and
- Managing our portfolio, including loss mitigation activities.

Maintaining Policies and Procedures for New Business Activity, Including Prudent Underwriting Standards

We use a prior approval underwriting approach for multifamily loans, in contrast to the delegated underwriting approach used for single-family loans. Under this approach, we maintain credit discipline by completing our own underwriting and credit review for each new loan prior to issuance of a loan commitment, including review of third-party appraisals and cash flow analysis. Our underwriting standards focus on the LTV ratio and DSCR, which estimates ability to repay using the secured property’s cash flow, after expenses. A higher DSCR indicates lower credit risk. Our standards require maximum LTV ratios and minimum DSCRs that vary based on the characteristics and features of the loan. Loans are generally underwritten with a maximum original LTV ratio of 80% and a DSCR of greater than 1.25, assuming monthly payments that reflect amortization of principal. However, certain loans may have a higher LTV ratio and/or a lower DSCR, typically where this will serve our mission and contribute to achieving our affordable housing goals. For more detail on LTV ratios of our portfolio, see "Managing Our Portfolio, Including Loss Mitigation Activities" in this section. Consideration is also given to other qualitative factors, such as borrower experience and the strength of the local market. Sellers provide certain representations and warranties to us regarding the loans they sell to us, and are required to repurchase loans for which there has been a breach of representation or warranty. However, repurchases of multifamily loans have been extremely rare due to our underwriting approach prior to purchase.

Multifamily loans may be amortizing or interest-only (for the full term or a portion thereof) and have a fixed or variable rate of interest. Multifamily loans generally have shorter terms than single-family loans and typically have maturities ranging from five to ten years. Most multifamily loans require a balloon payment at maturity, making ability to refinance or pay off the loan at maturity a key attribute. Some borrowers may be unable to refinance during periods of rising interest rates or adverse market conditions.

The table below presents our multifamily loan purchases and other guarantee issuances, by product term.

	December 31,					
	2015		2014		2013	
(dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
10-year loans, fixed or adjustable	$20,603	43 %	$11,069	39 %	$14,977	58 %
7-year loans, fixed or adjustable	16,875	36	11,773	42	7,393	29
Other	9,786	21	5,494	19	3,502	13
Total	$47,264	100 %	$28,336	100 %	$25,872	100 %

Transferring the Vast Majority of Expected Credit Losses to Third Parties Through K Certificates and Similar Securitizations

We seek to transfer multifamily mortgage credit risk primarily through K Certificate transactions in which we transfer substantially all of the first loss position associated with the underlying multifamily loans to third-party investors. The amount of subordination to the guaranteed certificates in our K Certificate transactions is set at a level that we believe is sufficient to cover the vast majority of the expected credit losses on the loans. We continue to develop other strategies to reduce our credit exposure to multifamily loans and securities by transferring credit risk to third parties. We securitized $128.4 billion in UPB of multifamily loans in K Certificate transactions between 2009 and 2015. Excluding transactions without subordination, the average level of subordination on all outstanding K Certificates was 18% as of both December 31, 2015 and 2014. Since we began issuing K Certificates, we have experienced no credit losses associated with our guarantees on these securities. See "Our Business Segments - Multifamily" for more information on K Certificates.
The table below shows the delinquency rates for both credit-enhanced and non-credit-enhanced loans in our multifamily mortgage portfolio.

	December 31, 2015				2014				2013			
	% of Portfolio		Delinquency Rate		% of Portfolio		Delinquency Rate		% of Portfolio		Delinquency Rate	
Non-credit-enhanced	32	%	0.03	%	40	%	0.02	%	47	%	0.07	%
Credit-enhanced:												
K Certificates	61		0.02	%	53		0.01	%	45		0.07	%
Other	7		—	%	7		0.35	%	8		0.29	%
Total	100	%	0.02	%	100	%	0.04	%	100	%	0.09	%

Managing Our Portfolio, Including Loss Mitigation Activities

To help mitigate our potential losses, we generally require sellers to act as the primary servicer for loans they have sold to us, including property monitoring tasks beyond those typically performed by single-family servicers. For securitized loans, we typically transfer the master servicing role to the trustees on behalf of the bondholders in accordance with the securitization and trust documents. Servicers for unsecuritized loans over $1 million must generally submit an annual assessment of the mortgaged property to us based on the servicer's analysis of the property as well as the borrower's financial statements. In situations where a borrower or property is in distress, the frequency of communications with the borrower may be increased. We rate servicing performance on a regular basis and we may conduct on-site reviews to confirm compliance with our standards.
We primarily use credit enhancements, such as the subordination provided by K Certificates, to mitigate our credit losses. For unsecuritized loans, we may offer a workout option to give the borrower an opportunity to bring the loan current and retain ownership of the property, such as providing a short-term extension of up to 12 months. These arrangements are entered into with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement. Our multifamily loan modification and other workout activities have been minimal in the last three years.

In addition, after the loans have been securitized and the vast majority of the expected credit losses has been transferred to third-party investors, we monitor the performance of our K Certificates and other similar types of transactions to assess our potential exposure to losses. Due to the subordination protection associated with our K Certificates and most of our other securitization products, our primary credit risk exposure in our multifamily mortgage portfolio results from our unsecuritized loans. By their nature, loans awaiting securitization that we hold for sale remain on our balance sheet for a shorter period of time than loans we hold for investment.

We report multifamily delinquency rates based on UPB of 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. 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.

The table below presents information about the composition and delinquency rates of the multifamily mortgage portfolio.

	December 31, 2015			2014		
(dollars in billions)	UPB	Delinquency Rate		UPB	Delinquency Rate	
Unsecuritized loans	$49.1	0.04	%	$53.0	0.02	%
K Certificates	103.1	0.02	%	76.0	0.01	%
Other securitization products	6.7	—	%	5.0	0.64	%
Other mortgage-related guarantees	9.5	—	%	9.3	—	%
Total	$168.4	0.02	%	$143.3	0.04	%
Unsecuritized loans, excluding HFS loans:						
Original LTV ratio:						
Below 75%	$21.2	—	%	$30.4	0.04	%
75% to 80%	7.1	—	%	9.8	—	%
Above 80%	1.2	—	%	0.7	—	%
Total	$29.5	—	%	$40.9	0.03	%
Weighted average LTV ratio at origination	68 %			68 %		
Maturity dates:						
2015	N/A	N/A		$3.0	—	%
2016	$1.9	—	%	5.8	—	%
2017	4.6	—	%	5.8	—	%
2018	7.8	—	%	8.4	—	%
2019	6.9	—	%	7.4	0.15	%
Thereafter	8.3	—	%	10.5	—	%
Total	$29.5	—	%	$40.9	0.03	%
Year of acquisition:						
2010 and prior	$23.1	—	%	$35.5	0.03	%
2011 and after	6.4	—	%	5.4	—	%
Total	$29.5	—	%	$40.9	0.03	%
K Certificates and other securitization products:						
Year of issuance:						
2010 and prior	$10.5	0.07	%	$11.0	0.39	%
2011	10.7	0.12	%	11.2	—	%
2012	15.8	—	%	16.4	—	%
2013	22.9	—	%	23.9	—	%
2014	17.5	—	%	18.5	—	%
2015	32.4	—	%	N/A	N/A	
Total	$109.8	0.02	%	$81.0	0.05	%
Subordination level at issuance:						
No subordination	$2.0	0.01	%	$0.7	0.06	%
Less than 10%	5.1	—	%	4.4	—	%
10% to 15%	44.0	0.05	%	32.0	0.14	%
Greater than 15%	58.7	—	%	43.9	—	%

Total	$109.8	0.02	%	$81.0	0.05	%

Our REO activity has remained low in the past several years as a result of the strong property performance of our multifamily mortgage portfolio. As of December 31, 2015, we had one REO property.

Credit Losses and Recoveries

Our multifamily credit losses remain low as a result of the strong property performance of our multifamily mortgage portfolio. The table below contains details on our multifamily credit losses and delinquencies.

	Year Ended December 31,		
(dollars in millions)	2015	2014	2013
Charge-offs, gross[1]	$9	$3	$29
Recoveries	—	(1)	(1)
Charge-offs, net	9	2	28
REO operations expense (income)	4	(9)	(16)
Credit losses (gains)	$13	$(7)	$12
Credit losses (gains) (in bps)	0.8	(0.5)	0.9
Number of delinquent loans	4	8	16

(1) Includes cumulative fair value losses recognized through the date of foreclosure for Multifamily loans we elected to carry at fair value at the time of our purchase.

Loan Loss Reserves

The table below summarizes our multifamily loan loss reserves activity.

	Year Ended December 31,				
(dollars in millions)	2015	2014	2013	2012	2011
Beginning balance	$94	$151	$382	$545	$828
Provision for credit losses	(26)	(55)	(218)	(123)	(196)
Charge-offs, gross	(9)	(3)	(7)	(36)	(75)
Recoveries	—	1	1	2	1
Transfers, net	—	—	(7)	(6)	(13)
Ending balance	$59	$94	$151	$382	$545
As a percentage of total multifamily mortgage portfolio	0.04%	0.07%	0.11%	0.30%	0.47%

TDRs and Non-accrual Loans

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

	December 31,				
(in millions)	2015	2014	2013	2012	2011
TDRs on accrual status	$321	$535	$675	$806	$814
Non-accrual loans	189	385	628	1,488	1,889
Total TDRs and non-accrual loans	$510	$920	$1,303	$2,294	$2,703
Loan loss reserves associated with:					
TDRs on accrual status	$9	$21	$15	$48	$45
Non-accrual loans	12	31	65	157	201
Total	$21	$52	$80	$205	$246

	Year Ended December 31,				
(in millions)	2015	2014	2013	2012	2011
Foregone interest income	$3	$4	$8	$11	$15

The balance of our multifamily TDR and non-accrual loans has declined for the last four years, which reflects continued strong portfolio performance and positive market fundamentals.

MORTGAGE-RELATED SECURITIES CREDIT RISK

Our mortgage-related securities portfolio consists of investments in agency and non-agency mortgage-related securities. Agency mortgage-related securities have historically presented minimal credit risk as a result of the guarantee provided by, and the U.S. government's support of, the institutions that issue agency securities. Substantially all of our purchases of mortgage-related securities in recent years consisted of agency securities, as we generally no longer purchase non-agency mortgage-related securities. As a result, the amount of our non-agency mortgage-related securities, relative to our overall mortgage-related securities portfolio, declined in recent years. As our investments in non-agency mortgage-related securities do not include a guarantee from a GSE or governmental agency, we have credit risk exposure to the underlying collateral of these securities. Such credit risk exposure principally arises from the non-agency mortgage-related securities that we purchased prior to entering into conservatorship.

The following two tables present the composition of our mortgage-related securities portfolio by product and include our holdings of Freddie Mac mortgage-related securities issued by non-consolidated trusts. While we hold certain investments in Freddie Mac mortgage-related securities issued by consolidated trusts (e.g., PCs), these securities are eliminated in consolidation and are excluded from these tables.

Available-For-Sale Securities

	December 31, 2015		2014		2013	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale mortgage-related securities:						
Freddie Mac	$32,684	$33,527	$37,710	$39,099	$39,001	$40,659
Fannie Mae	7,033	7,262	10,860	11,313	10,140	10,797
Ginnie Mae	150	162	183	199	149	167
CMBS	12,009	12,448	20,988	21,822	29,151	30,338
Subprime	12,499	12,802	20,210	20,589	29,897	27,499
Option ARM	3,423	3,678	5,460	5,649	6,617	6,574
Alt-A and other	2,788	3,278	4,500	5,043	8,322	8,706
Obligations of states and political subdivisions	1,187	1,205	2,166	2,198	3,533	3,495
Manufactured housing	488	575	556	638	629	684
Total investments in available-for-sale mortgage-related securities	$72,261	$74,937	$102,633	$106,550	$127,439	$128,919

Trading Securities

	December 31,		
(in millions)	2015	2014	2013
Trading mortgage-related securities:			
Freddie Mac	$15,513	$17,469	$9,349
Fannie Mae	6,438	6,099	7,180
Ginnie Mae	30	16	98
Other	146	171	141
Total trading mortgage-related securities	$22,127	$23,755	$16,768

Risk Management Activities - Non-Agency Mortgage-Related Securities

We manage our exposure to the credit risk of our non-agency mortgage-related securities using the following principal strategies:

- Selling or securitizing certain assets; and
- Pursuing litigation and other loss recovery efforts.

For information on litigation related to certain of our non-agency mortgage-related securities, see Note 13.

Our investments in non-agency mortgage-related securities declined in recent years, as we continue our efforts to dispose of certain non-agency mortgage-related securities in an economically sensible manner. However, we still have a significant portfolio of non-agency mortgage-related securities. While the credit performance of loans underlying our holdings of single-family non-agency mortgage-related securities stabilized in recent periods, it remains weak and is susceptible to changes in economic conditions, such as home prices, mortgage interest rates, and unemployment rates. See "Key Economic Indicators" for a discussion of how these conditions influence the performance of our securities.

We discuss the credit risk associated with our non-agency mortgage-related securities in the following sections.

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

We have exposure to subprime, option ARM, interest-only, Alt-A and other loans through our investments in non-agency mortgage-related securities and certain Freddie Mac other securitization products. 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 categorized option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities.

While approximately 86% of our investments in CMBS (by UPB) are investment grade or above, 96% of our investments in subprime, option ARM, and Alt-A securities are below investment grade as of December 31, 2015. As a result, we have identified our investments in securities backed by subprime, option ARM, and Alt-A loans as having the highest credit risk exposure.

The following table presents certain credit-related statistics concerning our available-for-sale, non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans.

	As of				
(in millions)	12/31/2015	9/30/2015	6/30/2015	3/31/2015	12/31/2014
UPB:					
Subprime	$17,295	$18,539	$20,987	$23,790	$27,682
Option ARM	5,309	5,604	6,938	7,704	8,287
Alt-A	2,696	3,066	3,622	4,318	4,549
Gross unrealized losses, pre-tax:					
Subprime	$350	$394	$388	$497	$610
Option ARM	62	74	85	164	183
Alt-A	13	22	22	30	32
Present value of expected future credit losses:					
Subprime	$2,712	$2,717	$3,196	$2,894	$4,262
Option ARM	676	731	885	745	987
Alt-A	188	219	262	290	457
Principal repayments:					
Subprime	$580	$602	$631	$649	$770
Option-ARM	153	191	156	149	154
Alt-A	187	232	213	198	199
Principal cash shortfalls:					
Subprime	$4	$4	$37	$18	$2
Option ARM	9	23	42	50	52
Alt-A	13	20	22	(1)	21
Collateral delinquency rate:					
Subprime	27%	28%	29%	31%	32%
Option ARM	23	23	24	26	27
Alt-A	18	18	19	20	20
Average credit enhancement:					
Subprime	6%	7%	8%	9%	9%
Option ARM	(1)	(1)	(1)	—	—
Alt-A	1	1	1	2	2
Cumulative collateral loss:					
Subprime	34%	33%	33%	33%	32%
Option ARM	26	26	25	25	25
Alt-A	16	15	16	15	15

The UPB of our investments in non-agency mortgage-related securities shown above includes many securities that were subject to litigation settlements in recent years. The UPB amounts were not affected by the amounts we received in the settlements. See Note 13 for information on recent settlements.

Since the beginning of 2007, we experienced actual principal cash shortfalls of $4.4 billion on impaired available-for-sale non-agency mortgage-related securities. Most of these shortfalls occurred on securities backed by subprime, option ARM, and Alt-A loans.

Other-Than-Temporary Impairment of Available-For-Sale Mortgage-Related Securities

We evaluate our available-for-sale securities, including non-agency mortgage-related securities, in an unrealized loss position, as of each balance sheet date, to determine whether the decline in value is other-than-temporary. An unrealized loss exists when the fair value of a security is less than its amortized cost basis. Other-than-temporary impairment is considered to have occurred if the fair value of the security is less than its amortized cost basis and we intend to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Under these circumstances, the security's entire decline in fair value is deemed other-than-temporary and is recognized in earnings.

We determine the population of securities that we intend to sell as of each balance sheet date. To determine this population, we use management judgment, based on a variety of factors, including market conditions, current operational plans, models and strategies and whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. Changes in our operational plans, models or strategies could change the population of securities we intend to sell and could have a potentially significant impact on earnings.

If we do not intend to sell the security or it is not more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the unrealized loss is separated into two components, the amount representing the credit loss and the amount related to all other factors. The other-than-temporary impairment amount related to the credit loss is recognized in earnings, while the amount related to all other factors, such as interest rate changes, is recorded to other comprehensive income, net of taxes. The credit-related impairment is calculated as the difference between the present value of expected future cash flows at the time of impairment, including the estimated proceeds from bond insurance, and the amortized cost basis of the security prior to considering credit losses.

The evaluation of whether an unrealized loss is other-than-temporary requires significant judgment, assumptions, and consideration of numerous factors that may change over time. For example, the timing of our recognition of principal cash shortfalls varies based on the structure of our investments, as many of the trusts that issued non-agency mortgage-related securities were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures. In addition, our investments in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were structured to include credit enhancements, particularly through subordination and other structural enhancements. We may also have credit enhancements through bond insurance on certain non-agency mortgage-related securities. As it is difficult to estimate the future performance of loans and mortgage-related securities with a high degree of assurance, actual results could materially differ from our expectations.

The following table summarizes the impairment recognized in earnings for our available-for-sale mortgage-related securities.

	Year Ended December 31,		
(in millions)	2015	2014	2013
Net impairment of available-for-sale securities recognized in earnings:			
Intent to sell	$240	$817	$568
Other	52	121	942
Total net impairment of available-for-sale securities recognized in earnings	$292	$938	$1,510

Over the last several years, consistent with our efforts to reduce the balance of our less liquid mortgage-related assets, we continued to identify additional available-for-sale securities that we intend to sell. As a result, we recognized the full amount of the unrealized loss on these securities in earnings. The “intent to sell” related impairment recognized in earnings declined during 2015 compared to 2014, as the unrealized losses associated with those securities we intend to sell were lower due to improvements in forecasted home prices, declines in market interest rates, and tightening of credit spreads on non-agency mortgage-related securities. See “Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness” for additional information on the limits on our mortgage-related investments portfolio.

The "other" impairment amount relates to increases in our estimate of the present value of expected future credit losses on certain individual available-for-sale securities. The portion of the impairment related to credit losses has declined since 2013, as a result of improved pricing, stabilized collateral performance, and our efforts to sell certain of the non-agency mortgage-related securities. We sell non-agency mortgage-related securities for a variety of reasons, including return versus risk profile.

INSTITUTIONAL CREDIT RISK

We are exposed to institutional credit risk as a result of our contracts with seller/servicers, mortgage and bond insurers, derivative counterparties, including clearing members and clearinghouses, cash and other investments counterparties, mortgage-related security issuers, and document custodians. We manage our exposure to institutional credit risk using the following principal strategies:

- Maintaining eligibility standards;
- Evaluating counterparty financial strength and performance and monitoring our exposure; and
- Working with underperforming counterparties and limiting our losses from their nonperformance of obligations, when possible.

In the sections below, we discuss our management of institutional credit risk for each type of counterparty to which we have significant exposure.

Sellers and Servicers

Overview

In our single-family guarantee business, we do not originate loans or have our own loan servicing operation. Instead, our sellers and servicers perform the primary loan origination and loan servicing functions on our behalf. We establish standards for our sellers and servicers to follow and have contractual arrangements with them under which they represent and warrant that the loans they sell to us meet our standards and that they will service loans in accordance with our standards. If we discover that the representations or warranties related to a loan were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. If our sellers or servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption, including as a result of legal or regulatory actions or ratings downgrades, we could experience a decline in mortgage servicing quality and/or be less likely to recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable.

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property’s financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk.

Maintaining Eligibility Standards

Our eligibility standards for sellers and servicers require the following: a demonstrated operating history in residential mortgage origination and servicing, or an eligible agent acceptable to us; adequate insurance coverage; a quality control program that meets our standards; and sufficient net worth, liquidity, and funding sources.

In 2015, at the direction of FHFA, we and Fannie Mae announced changes to our single-family seller and servicer eligibility requirements. These changes include revisions to net worth requirements, adoption of

new capital and liquidity requirements and enhancements to certain servicer operational requirements. Our revised operational requirements took effect in August 2015 and our revised financial requirements took effect on December 31, 2015.

Evaluating Counterparty Financial Strength and Performance and Monitoring our Exposure

We perform ongoing monitoring and review of our exposure to individual sellers or servicers in accordance with our counterparty risk management framework, including requiring our counterparties to provide regular financial reporting to us. We also monitor and rate our sellers and servicers' compliance with our standards and periodically review their operational processes. We may disqualify or suspend a seller or servicer with or without cause at any time. Once a seller/servicer is disqualified or suspended, we no longer purchase loans originated by that counterparty and no longer allow that counterparty to service loans for us, while seeking to transfer servicing of existing portfolios.

As discussed in more detail in “Our Business Segments", we acquire a significant portion of both our single-family and multifamily loan purchase volume from several large lenders, and a large percentage of our loans are also serviced by several large servicers.

We have significant exposure to non-depository and smaller depository financial institutions in our single-family business. These institutions may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as our largest mortgage seller or servicer counterparties.

Although our business with our single-family loan sellers is concentrated, a number of our largest single-family loan seller counterparties reduced or eliminated their purchases of loans from mortgage brokers and correspondent lenders in recent years. As a result, we acquire a greater portion of our single-family business volume directly from non-depository and smaller depository financial institutions.

Also in recent years, there has been a shift in our single-family servicing from depository institutions to non-depository institutions. Some of these non-depository institutions have grown rapidly in recent years and now service a large share of our loans. We estimate that from December 31, 2012 to December 31, 2015, the percentage of our single-family credit guarantee portfolio that was serviced by non-depository servicers grew from 19% to 29%. Approximately 35% and 44% of our single-family credit guarantee portfolio that was serviced by our non-depository servicers was serviced by our three largest non-depository servicers, on a combined basis, as of December 31, 2015 and 2014, respectively. Certain non-depository servicers have been the subject of scrutiny from regulators.

Ocwen Financial Corp. (Ocwen) is one of our significant non-depository servicers of single-family loans. Ocwen and its subsidiaries and/or affiliates have been the subject of significant adverse regulatory scrutiny, and we have taken steps to reduce our exposure to them. We reduced the UPB of our loans serviced by Ocwen to $26.4 billion at December 31, 2015 from $50.9 billion at December 31, 2014, or a reduction of approximately 48%. We continue to closely monitor Ocwen’s performance.

Working with Underperforming Counterparties and Limiting our Losses from their Nonperformance of Obligations, when Possible

We require certain of our larger single-family sellers to maintain ineligible loan rates below a stated threshold, with financial consequences for non-compliance. In addition, we actively manage the current quality of loan originations of our largest single-family sellers by performing loan quality control sampling reviews and communicating loan defect rates and the causes of those defects to such sellers on a

monthly basis. If necessary, we work with these sellers to develop an appropriate plan of corrective action.
We use a variety of tools and techniques to engage our single-family sellers and servicers and limit our losses, including the following:

- Repurchases and other remedies - For certain violations of our single-family selling or servicing policies, we can require the counterparty to repurchase loans or provide alternative remedies, such as reimbursement of realized losses or indemnification. We typically first issue a notice of defect and allow a period of time to correct the problem prior to issuing a repurchase request.

In January 2016, at the direction of FHFA, we implemented a new remedies framework for the categorization of loan origination defects. Among other items, the framework provides that "significant defects" will result in a repurchase request or a repurchase alternative, such as recourse or indemnification. We may require the seller to pay us additional fees or provide us with additional data on the loan.
The UPB of loans subject to repurchase obligations from single-family loan sellers declined to $0.2 billion at December 31, 2015 from $0.3 billion at December 31, 2014. See Note 13 for additional information about loans subject to repurchase obligations.

- Incentives and compensatory fees - We pay various incentives to single-family servicers for completing workouts of problem loans. We also assess compensatory fees if single-family servicers do not achieve certain benchmarks with respect to servicing delinquent loans.
- Servicing transfers - From time to time, we facilitate the transfer of servicing for certain groups of single-family loans that are delinquent or are deemed at risk of default to servicers that we believe have the capabilities and resources necessary to improve the loss mitigation associated with the loans. Depending on our experience with the results of these transfers and specific servicer experience and capacity, we may permit additional transfers in the future, subject to FHFA approval in the case of larger transfers.

Mortgage and Bond Insurers

Overview

We have exposure to mortgage and bond insurers through credit enhancements we obtained on single-family loans and certain investments in non-agency mortgage-related securities. We also have exposure to insurers through our ACIS transactions. If any of our mortgage or bond insurers fail to fulfill their obligations, we may not receive reimbursement for credit losses to which we are contractually entitled pursuant to our credit enhancement arrangements.

With respect to primary mortgage insurers, we currently cannot differentiate pricing based on counterparty strength or revoke a primary mortgage insurer's status as an eligible insurer without FHFA approval. Further, we do not select the insurance provider on a specific loan, since the selection is made by the lender at the time the loan is originated. Accordingly, we are unable to manage our concentration risk with respect to primary mortgage insurers. However, in recent years, new entrants emerged that will likely help diversify our concentrated primary mortgage insurer exposure among more market participants over time.

As part of our ACIS credit risk transfer initiative, we regularly obtain insurance coverage from global insurers and reinsurers. This initiative incorporates several features designed to increase the likelihood that we will recover on the claims we file with the insurers, including the following:

- In each ACIS transaction, we require the individual ACIS insurers and reinsurers to post collateral to cover portions of their exposure, which helps to promote certainty of coverage and timely claim payment; and
- While private mortgage insurance companies are required to be monoline (i.e., to participate solely in the mortgage insurance business, although the holding company may be a diversified insurer), our ACIS insurers and reinsurers participate in multiple types of insurance businesses, which helps to diversify their risk exposure.

We acquired our bond insurance coverage when purchasing non-agency mortgage-related securities in prior years and have not obtained any new bond insurance coverage in many years.

Maintaining Eligibility Standards

We maintain eligibility standards for mortgage insurers. In 2015, at the direction of FHFA, we published revised eligibility requirements for mortgage insurers, in conjunction with Fannie Mae, which became effective for all Freddie Mac-approved mortgage insurers on December 31, 2015. These revised eligibility requirements include financial requirements determined using a risk-based framework, and were designed to promote the ability of mortgage insurers to fulfill their intended role of providing consistent liquidity throughout the mortgage cycle. Our mortgage insurers are required to submit audited financial information and certify compliance with these new requirements by March 1, 2016. We will confirm our mortgage insurers' capital adequacy as part of reviewing eligibility compliance subsequent to receiving relevant information.

In 2014, we issued and implemented revised master policies for mortgage insurers that are designed to provide greater certainty of coverage and facilitate timely claims processing.

Evaluating Counterparty Financial Strength and Performance and Monitoring our Exposure

We monitor our exposure to individual insurers by performing periodic analysis of the financial capacity of each insurer under various adverse economic conditions.

The table below summarizes our exposure to single-family primary mortgage insurers as of December 31, 2015. In the event a mortgage insurer fails to perform, the coverage amounts represent our maximum exposure to credit losses resulting from such a failure.

			December 31, 2015			
			UPB		Coverage	
(in millions)	Credit Rating[1]	Credit Rating Outlook[1]	Primary MI	Pool Insurance	Primary MI	Pool Insurance
United Guaranty Residential Insurance Company (United Guaranty)	BBB+	Watch Negative	$56,931	$19	$14,675	$12
Radian Guaranty Inc. (Radian)	BB+	Stable	55,170	1,905	14,125	623
Mortgage Guaranty Insurance Corporation (MGIC)	BB+	Stable	54,505	148	14,034	2
Genworth Mortgage Insurance Corporation	BB+	Stable	36,589	24	9,387	23
Essent Guaranty, Inc.	BBB	Stable	22,696	—	5,824	—
PMI Mortgage Insurance Co. (PMI)	Not Rated	N/A	9,489	91	2,360	62
Republic Mortgage Insurance Company (RMIC)	Not Rated	N/A	7,335	55	1,831	26
Arch Mortgage Insurance Company	BBB+	Stable	5,301	—	1,308	—
Triad Guaranty Insurance Corporation (Triad)	Not Rated	N/A	3,564	20	896	5
Others	N/A	N/A	5,483	—	1,320	—
Total			$257,063	$2,262	$65,760	$753

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of February 4, 2016. Represents the lower of S&P and Moody’s credit ratings and outlooks stated in terms of the S&P equivalent.

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. Although the financial condition of our mortgage insurers has improved in recent years, there is still a risk that some of these counterparties may fail to fully meet their obligations under a stress economic scenario since they are monoline entities primarily exposed to mortgage credit risk.

On January 26, 2016, as part of its strategic plan update, American International Group, Inc., announced the planned initial public offering of up to a 19.9% stake in its mortgage insurance subsidiary, United Guaranty. Because United Guaranty is an approved mortgage insurer, we will evaluate the impact to United Guaranty's financial strength as part of approving the planned offering.

PMI and Triad are both in rehabilitation and no longer issue new insurance. Both of these insurers pay a substantial portion of their claims as deferred payment obligations. RMIC is under regulatory supervision and is no longer issuing new insurance; however, it continues to pay its claims in cash.

If, as we currently expect, PMI and Triad 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 December 31, 2015, we had cumulative unpaid deferred payment obligations of $0.5 billion from these insurers, although we are fully reserved for all of these unpaid amounts as collectability is uncertain.

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 above, many of which have credit ratings below investment grade.

The table below summarizes our exposure to bond insurers as of December 31, 2015. 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.

(dollars in millions)	Credit Rating[(1)]	Credit Rating Outlook[(1)]	December 31, 2015 UPB Gross Unrealized Losses	Coverage Outstanding	% of Total Coverage Outstanding	
Ambac Assurance Corporation (Ambac)	Not Rated	N/A	$7	$2,888	51	%
National Public Finance Guarantee Corp.	A-	Negative	3	1,046	18	%
Financial Guaranty Insurance Company (FGIC)	Not Rated	N/A	4	714	12	%
MBIA Insurance Corp.	B-	Stable	—	697	12	%
Assured Guaranty Municipal Corp.	A	Stable	—	303	5	%
Syncora Guarantee Inc.	Not Rated	N/A	—	30	1	%
CIFG Assurance North America, Inc.	Not Rated	N/A	—	30	1	%
Total			$14	$5,708	100	%

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of February 4, 2016. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

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. Some of our bond insurers are in runoff mode and not writing new business.

Derivative Counterparties

Overview

We use cleared derivatives, exchange-traded derivatives, and OTC derivatives, and are exposed to the non-performance of each of our derivative counterparties. The Investments segment manages this risk for the company. Our derivative counterparty credit exposure relates principally to interest-rate derivative contracts. We maintain internal standards for approving new derivative counterparties, clearinghouses, and clearing members.

- Cleared derivatives - 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 of the Dodd-Frank Act, which has resulted in additional costs. We are required to post initial and variation margin with our clearing members in connection with such transactions. Our exposure to the clearinghouses we use to clear such interest-rate derivatives, and to the clearing members that administer our transactions once accepted for clearing, has increased and may become more concentrated over time. This concentration exposes us to the risk of a failure of a clearinghouse. However, the use of cleared derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. The amount of initial margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post margin, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions.
- Exchange-traded derivatives - We are required to post initial and variation margin with our clearing

members in connection with exchange-traded derivatives. The posting of this margin exposes us to institutional credit risk in the event that our clearing members or the exchanges' clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts are settled daily via payments made through the financial clearinghouse established by each exchange.

- OTC derivatives - OTC derivatives expose us to institutional credit risk to individual counterparties, because these transactions are executed and settled directly between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations. When a counterparty in OTC derivatives that is subject to a master netting agreement has a net obligation to us with a market value above an agreed upon threshold, the counterparty is obligated to deliver collateral in the form of cash, securities, or a combination of both to satisfy its obligation to us under the master netting agreement. Our OTC derivatives also require us to post collateral to counterparties in accordance with agreed upon thresholds when we are in a derivative liability position. The collateral posting thresholds we assign to our OTC counterparties, as well as the ones they assign to us, are generally based on S&P or Moody’s credit rating. 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.

In the event a 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 losses 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.

Evaluating Counterparty Financial Strength and Performance and Monitoring Our Exposure

Over time, our exposure to derivative counterparties varies depending on changes in fair values, which are affected by changes in interest rates and other factors. Due to risk limits with certain counterparties, we may be forced to execute transactions with lower returns with our counterparties when managing our interest-rate risk. We manage our exposure through master netting and collateral agreements and stress-testing to evaluate potential exposure under possible adverse market scenarios. Collateral is typically transferred within one business day based on the values of the related derivatives. We regularly review the market values of the securities pledged to us as non-cash collateral to manage our exposure to loss. We conduct additional reviews of our exposure when market conditions dictate or certain events affecting an individual counterparty occur. 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 table below reconciles the net asset fair value of derivative contracts on our consolidated balance sheets to our net exposure after considering non-cash collateral held, which is not netted on our consolidated balance sheets.

(dollars in millions)	As of December 31, 2015 Number of Counter-parties	Fair Value - Gain positions	Fair Value - Gain positions, net of collateral
OTC interest-rate swap and swaption counterparties (by rating):			
AA- or above	5	$270	$2
A+, A, or A-	9	1,568	59
BBB+, BBB, or BBB-	3	—	—
Total OTC	17	1,838	61
Cleared and exchange-traded derivatives		—	—
Total	17	$1,838	$61

Approximately 97% of our exposure at fair value for OTC interest-rate swap and option-based derivatives, excluding amounts related to our posting of cash collateral in excess of our derivative liability determined at the counterparty level, was collateralized at December 31, 2015. The remaining exposure was primarily due to market movements between the measurement of a derivative at fair value and our receipt of the related collateral, as well as exposure amounts below the applicable counterparty collateral posting threshold.

The concentration of our derivative exposure among our primary OTC derivative counterparties remains high and could further increase.

We have posted non-cash collateral of $2.8 billion for initial margin related to cleared and exchange-traded derivatives as of December 31, 2015.

We also execute forward purchase and sale commitments of mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes and 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. In the event a clearing member fails and causes losses to the MBSD/FICC clearing system, we could be subject to the loss of the margin that we have posted to the MBSD/FICC. Moreover, our exposure could exceed the amount of margin we have posted to the MBSD/FICC, as clearing members are generally required to cover losses caused by defaulting members on a pro rata basis. It is difficult to estimate our maximum exposure, as this would require an assessment of transactions that we and other members of the MBSD/FICC may execute in the future. We believe that it is unlikely we will have to make any material payments under these arrangements and the risk of loss is expected to be remote because of the MBSD/FICC’s financial safeguards and our ability to terminate our membership in the clearinghouse (which would limit our loss).

Other Counterparties

We have exposure to other types of counterparties to transactions that we enter into in the ordinary course of business, including the following:

- Cash and other investments counterparties - We are exposed to the non-performance of counterparties relating to cash and other investments (including non-mortgage-related investments and cash equivalent) transactions, including those entered into on behalf of our securitization trusts. Our policies require that the counterparty be evaluated using our internal counterparty rating model prior to our entering into such transactions. We monitor the financial strength of our counterparties to

these transactions and may use collateral maintenance requirements to manage our exposure to individual counterparties. The permitted term and dollar limits for each of these transactions are also based on the counterparty's financial strength. Our cash and other investments (including non-mortgage-related investments and cash equivalents) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. Our investments in non-mortgage-related securities at December 31, 2015 and 2014 were in U.S. Treasury securities.

- Mortgage related-security issuers and servicers - We are exposed to the non-performance of servicers and issuers of our investments in non-Freddie Mac mortgage-related securities, which can result in credit losses, impairments and declines in the fair value of these securities. See the "Mortgage-Related Securities Credit Risk" section for more information on how we manage risk associated with non-agency mortgage-related securities. A significant portion of the single-family loans underlying our investments in non-agency mortgage-related securities is serviced by non-depository servicers. These servicers may not have the same financial strength, internal controls or operational capacity as depository servicers. As of December 31, 2015 and 2014, approximately $13.0 billion and $17.9 billion, respectively, of our investments in single-family non-agency mortgage-related securities, based on UPB, were serviced by subsidiaries and/or affiliates of Ocwen.
- Document custodians - We use third-party document custodians to provide loan document certification and custody services for the loans that we purchase and securitize. In many cases, our seller/servicers or their affiliates also serve as document custodians for us. Our ownership rights to the loans that we own or that back our securitization products could be challenged if a seller/servicer intentionally or negligently pledges, sells, or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a seller/servicer or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the seller/servicer were to become insolvent. To manage these risks, we maintain legal and contractual arrangements that identify our ownership interest in the loans and establish qualifying standards for our document custodians. We also monitor the financial strength of our document custodians on an ongoing basis in accordance with our counterparty risk management framework, and we require transfer of documents to our possession or to a different third-party document custodian if we have concerns about the solvency or competency of the document custodian.
- The MERS® System - The MERS System is an electronic registry that is widely used by seller/servicers, Freddie Mac, and other participants in the mortgage industry to maintain records of beneficial ownership of loans. The MERS System is owned and operated by MERSCORP Holdings, Inc., a privately held company, the shareholders of which include a number of organizations in the mortgage industry (including Freddie Mac). A significant portion of the loans we own or guarantee are registered in the MERS System. Our business could be adversely affected if we were prevented from using the MERS System, or if our use of the MERS System adversely affects our ability to enforce our rights with respect to our loans registered in the MERS System.

OPERATIONAL RISK

We define operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. Operational risk is inherent in all of our activities. Operational risk events include accounting or operational errors, business interruptions, non-compliance with legal or regulatory requirements, fraudulent acts, inappropriate acts by employees, information security incidents, or vendors who do not perform in accordance with their contracts. These events could result in financial loss, legal actions, regulatory fines, and reputational harm.

Operational Risk Management and Risk Profile

Our operational risk management framework includes risk identification, assessment, measurement, mitigation and reporting. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems and/or processes to further mitigate the risk of future events.

During 2015 we continued to enhance and refine our three-lines-of-defense framework to both strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. Our framework focuses on balancing ownership of risk by our business units with corporate oversight and independent assurance of the design and effectiveness of our risk management activities.

We moved several key functions within the organization to better align business decision-making with the first-line-of-defense. We expanded our second-line-of-defense testing capabilities over our operational controls. We continue a multi-year project focused on identifying and eliminating redundant control activities. In addition, we conducted select organizational design reviews focused on reducing the number of operating layers within the organization. We believe these enhancements will improve our risk management effectiveness.

In order to evaluate and monitor operational risk, each business unit completes a quarterly assessment using the Risk and Control Self-Assessment (RCSA) framework. The framework is designed to identify and assess the business unit's exposure to operational risk and determine if additional action is required to manage the risk to an acceptable level.

In addition to the RCSA process, we employ several tools to identify and measure operational risks, including loss event data, key risk indicators, root cause analysis, and testing. While our operational risk framework includes tools to support effective management of operational risk, the primary responsibility for managing both the day-to-day risk and longer-term or emerging risks lies with the business units.

We continue to strengthen our operational controls. During 2015, we continued to improve our operational control environment and reduced our outstanding control issues to low levels. We continued to improve our out-of-region disaster recovery capabilities. Our out-of-region data center, which became operational in 2014, improved our ability to recover our business systems in the event of a catastrophic regional business event, such as a disaster that affects our Northern Virginia production data centers. However, we continue to face significant levels of operational risks, including those discussed in "Risk Factors - Operational Risks."

We face increased operational risk due to the magnitude and complexity of FHFA initiatives and other new initiatives we are undertaking, including initiatives we are pursuing under the Conservatorship

Scorecards. 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 by the CSS, which is jointly owned by Freddie Mac and Fannie Mae, and a single (common) security. With regard to the common securitization platform, while we exercise influence over CSS through our Board representation, we do not control its day to day operations. As a result, if this initiative is not successful, we may not recover our investments. In addition, the transition to the common securitization platform, which is currently scheduled to begin in late 2016, presents significant operational and technological challenges.

The threat landscape in cyber security is changing rapidly and growing in sophistication. We may not be able to protect our systems with complete assurance or fully protect the confidentiality of our information from a cyber attack or other unauthorized access, disclosure, or disruption. We continue to invest in the information security area to strengthen our capabilities and help us defend against advanced threats. In 2014, we launched a multi-year data protection initiative designed to mitigate this risk.

Operational Risk Related to the Use of Models

Our business activities rely on the use of models. We use a variety of models to inform management decisions related to our businesses. These include models that forecast significant factors such as interest rates, mortgage rates, and house prices, as well as models that project future cash flows related to borrower prepayment and default behavior. Risks emerge when unexpected changes cause future outcomes to be different from the outcomes projected by our models.

Model development, changes to existing models, and model risks are managed in each line of business according to our three-lines-of-defense framework. New model development and changes to existing models undergo a rigorous review process. Each business periodically reviews model performance, embedded assumptions, and modeling techniques, and updates its models as it deems appropriate. The Enterprise Risk Management Division, the second-line-of-defense, develops corporate model risk policies and independently reviews the work done by the first-line-of-defense. The Internal Audit Division, the third-line-of-defense, provides additional periodic independent assessment that model governance, policies, and procedures are followed appropriately.

Given the importance and complexity of models in our business, model development may take several months to complete. Delays in our model development process could affect our ability to make sound business and risk management decisions, and increase our exposure to risk. We have procedures designed to mitigate this risk.

We face heightened exposure to risk in our model governance processes at this time, as we continue to transition to our enhanced three-lines-of-defense framework. We intend to make additional changes to strengthen our model governance processes. We also are having difficulty finding and retaining high quality technical model staff.

A corporate Model Operating Committee serves as a coordination forum for any issues arising from models that are used across divisions. Issues that remain unresolved at the Model Operating Committee are escalated to the ERC as necessary. We face significant risks associated with our use of models, as discussed in "Risk Factors - Operational Risks - We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes."

Operational Risk Issue Relating to Master Trust Agreement

Loan payments remitted to the company from seller/servicers are deposited into a custodial account that contains both property of the company and property of the company's securitization trusts, including:

- Mortgage payments of principal and/or interest owed to investors;
- Mortgage payments of principal and/or interest owed to the company;
- Management and guarantee fees due to the company;
- Excess payments as to which a refund or credit may be owed to a seller/servicer; and
- Earnings owed to the company from the investment of the funds in the custodial account.

The custodial account also holds the securitization trusts' funds arising from transactions between the company and the trusts, such as advances and guarantee payments by the company to the trusts and payments by the company for its purchases of defaulted loans from the trusts. Funds in the custodial account are restricted (i.e., not available for the company's general corporate purposes) even though some of the funds in that account are owed to the company. Amounts owed to the company are reclassified as unrestricted when funds are transferred into an operating cash account.

The company's processes and controls provide reasonable assurance that: (i) amounts that should be received from seller/servicers into the custodial account are so received; and (ii) amounts that should be paid to holders of its PCs are so paid. However, the company has concluded that some of its operating procedures are not sufficiently detailed to comply with certain of its obligations under its PC Master Trust Agreement or to enable the company to optimize its cash management.

Specifically, the company:

- Has not kept detailed pool-by-pool records of funds in the custodial account, as required by the Master Trust Agreement; and
- Has not been withdrawing from the custodial account all amounts due to the company, as required by the Master Trust Agreement, except for earnings from investment of funds.

Also, instead of recording separate, individual payments in the custodial account to reflect transactions between the company and the trusts, the company has been netting amounts due to and due from the trusts and then making monthly transfers to the custodial account of any aggregate net amount required to be paid to the trusts. Since amounts owing to the company have generally exceeded amounts owed by the company to the trusts in recent periods, this practice has led to a build-up in the custodial account of funds that may belong to the company.

The company initiated a project to correct these operational deficiencies, to attribute the funds in the custodial account as between the securitization trusts and the company and to record the relevant transactions and balances at a more detailed level. The company does not believe that this issue has had or will have a material adverse effect on holders of the company's PCs or on the company's financial condition or results.

Effectiveness of Our Disclosure Controls and Procedures

Management, including the company's CEO and CFO, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2015. As of December 31, 2015, 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."

INTEREST-RATE RISK AND OTHER MARKET RISKS

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

The majority of our interest-rate risk comes from our mortgage-related assets (securities and loans) and the debt we issue to fund them. Typically, an existing loan or bond investment is worth less to an investor when interest rates (yields) rise and worth more when they decline. In addition, for a majority of our mortgage-related assets, the borrower has the option to make unscheduled principal payments at any time before maturity without incurring a prepayment penalty. Thus, our mortgage-related asset portfolio is also exposed to the uncertainty as to when borrowers will exercise their option and pay the outstanding principal balance of their loans. We face similar (and in most cases directionally opposite) exposure related to unsecured debt. Unsecured debt is typically worth less to an investor when interest rates (yields) rise and more when they decline. In addition, we issue debt with embedded options, such as an option to call, which provides us flexibility concerning the timing of our debt maturities. We actively manage our economic exposure to interest rate fluctuations.

Our primary goal in managing interest-rate risk is to reduce the amount of change in the value of our future cash flows due to future changes in interest rates. We use models to analyze possible future interest-rate scenarios, along with the cash flow of our assets and liabilities over those scenarios.

The choice of the benchmark rate used to model and hedge our positions is a significant assumption. The effectiveness of our hedges ultimately depends on how closely the different instruments (assets, liabilities, and derivatives) react to the underlying chosen benchmark. In the simplest example, all instruments would have interest-rate risk based on the same underlying benchmark, in our case, the swap rate. In practice, however, different instruments react differently versus the benchmark rate, which creates a spread between the benchmark rate and the instrument. As the spreads of these instruments move differently, our ability to predict the behavior of each instrument relative to the others is reduced, potentially affecting the effectiveness of our hedges.

Although the mortgage-related investments portfolio is the main contributor of interest-rate risk to the company, other core businesses also contribute to our interest-rate risk and may be managed differently. Unlike the mortgage-related investments portfolio's long-term holding period for assets, the securitization pipeline typically has a much shorter holding period. Since these assets are typically sold shortly after purchase, the risk from these assets is generally tied to changes in current market prices (vs long-term future cash flow value). Hedging these businesses at times requires additional assumptions concerning risk metrics to accommodate changes in pricing that may not be related to the future cash flow of the assets. This could create a perceived risk exposure as the hedged risk may differ from the model risk.

We employ a risk management framework that seeks to maintain certain interest rate characteristics of our assets and liabilities within our risk limits through a number of different strategies, including:

- Asset selection and structuring, such as acquiring or structuring mortgage-related securities with certain expected prepayment and other characteristics;
- Issuance of both callable and non-callable unsecured debt; and
- Use of interest rate derivatives, including swaptions and swaps.

To maintain our interest-rate risk exposure within our risk limits across a range of interest-rate scenarios, we analyze the interest-rate sensitivity of financial assets and liabilities at the instrument level on a daily basis across a variety of interest-rate scenarios. For risk management purposes, the interest-rate risk characteristics are determined daily based on market prices and models. The fair values of our assets and liabilities, including derivatives, are primarily based on either third-party prices or observable market-based inputs.

The Risk Committee of our Board of Directors establishes certain Board limits for interest-rate risk measures, and if we exceed these limits we are required to notify the Risk Committee and address the limit breach. These limits encompass a range of interest-rate risks that include duration risk, convexity risk, volatility risk, and yield curve risk associated with our use of various financial instruments, including derivatives. Also, our ERM division establishes management limits. The management limits are set at values below those set at the Board level, which is intended to allow us to follow a series of predetermined actions in the event of a breach of the management limits and helps ensure proper oversight to reduce the possibility of exceeding the Board limits. Our ERC is responsible for reviewing performance as compared to the Board and management limits.

We generally do not hedge changes in fair value of our credit guarantees except for interest-rate exposure related to buy-ups and float. Float, which arises from timing differences between the borrower's principal payments on the loan and the reduction of the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate earned by the securitization trusts on payments received from borrowers and paid to us as trust management income.

Changes in prepayments, defaults, or spreads can adversely affect our economic cash flows, earnings, and net worth.

We use derivatives as an important part of our strategy to manage interest-rate risk. When deciding to use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risks, and our overall risk management strategy. See “Credit Risk - Institutional Credit Risk” and “Risk Factors” for more discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

Measurement of Interest-Rate Risk

The principal types of interest-rate and other market risks to which we are exposed are described below.

Risk	Description	Risk Exposure
Yield Curve Risk	Yield curve risk is the risk that changes in the level and shape of the yield curve, such as a level change, or a flattening or steepening, will adversely affect our economic value. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-YC disclosure.	• A change in the level of interest rates (represented by a parallel shift of the yield curve, all else constant) exposes our assets and liabilities to risk, potentially affecting future expected cash flows and their present values. • Similarly, changes in the shape or slope of the yield curve (often reflecting changes in the market's expectation of future interest rates) exposes our assets and liabilities to risk, potentially affecting expected future cash flows and their present values.
Volatility Risk	Volatility risk is the risk that changes in the market's expectation of the magnitude of future variations in interest rates will adversely affect our economic value.	• We are exposed to volatility risk in both our mortgage-related assets and liabilities, especially in instruments with embedded options.
Spread Risk	Spread risk is the risk that yields in different asset classes may not move together and may adversely affect our economic value.	• This risk arises principally because interest rates on our mortgage-related investments may not move in tandem with interest rates on our financial liabilities and derivatives, potentially affecting the effectiveness of our hedges. • We are continually exposed to significant spread risk, also referred to as mortgage-to-debt OAS risk, arising from funding mortgage-related investments with debt securities. • We also incur spread risk when we use LIBOR- or Treasury-based instruments in our risk management activities. • We are exposed to spread risk arising from the difference in time between when we commit to purchase a multifamily mortgage loan and when we securitize the loan. During this time, spreads can widen, causing losses due to changes in fair value. We also have spread risk on the K Certificates we hold in our mortgage-related investments portfolio.

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

- Duration gap - Measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the economic value unchanged. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities which, from a net perspective, implies that the economic value will increase in value when interest rates fall and decrease in value when

interest rates rise. A negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets which, from a net perspective, implies that the economic value will increase in value when interest rates rise and decrease in value when interest rates fall.

We actively measure and manage our duration gap exposure on a daily basis. In addition to duration gap management, we also measure and manage the price sensitivity of our portfolio to a number of different specific interest rate changes along the yield curve. The price sensitivity of an instrument to specific changes in interest rates is known as the instrument's key rate duration risk. By managing our duration exposure both in aggregate through duration gap and to specific changes in interest rates through key rate duration, we expect to limit our fair value exposure to interest rate changes for a wide range of interest rate yield curve scenarios. However, hedging our overall duration gap exposure could result in increased volatility in our financial results, as our derivatives and several types of our financial assets are measured at fair value, while our financial liabilities are generally not measured at fair value.

- PMVS - An estimate of the change in the market value of our financial assets and liabilities with spreads held constant from an instantaneous shock to interest rates, assuming no rebalancing actions are undertaken and assuming the mortgage rate-to-LIBOR basis does not change. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-Level or PMVS-L) and the other to a nonparallel movement (PMVS-Yield Curve or PMVS-YC), resulting from a 25 basis point change in slope of the LIBOR yield curve. 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.
- We calculate our exposure to changes in interest rates using effective duration and effective convexity based on our models. Effective duration measures the percentage change in the price of financial instruments from a 100 basis point change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise. The net effective duration of our portfolio is expressed in months as our duration gap.
- Effective convexity measures the change in effective duration for a 100 basis point change in interest rates. Effective duration is not constant over the entire yield curve and effective convexity measures how effective duration changes over large changes in interest rates.
- Together, duration and convexity provide a measure of an instrument's overall price sensitivity to changes in interest rates. We utilize the aggregate duration and convexity risk of all interest-rate sensitive instruments on a daily basis to estimate the two PMVS metrics. The duration and convexity measures are used to estimate PMVS using the following formula:

PMVS = -[Duration] multiplied by [rate shock] plus [0.5 multiplied by Convexity] multiplied by [rate shock]^2

In the equation, [rate shock] represents the interest-rate change expressed in fair value terms. Assuming an adverse 50 basis point change, the result of this formula is the fair value sensitivity to the change in rate, which is expressed as: PMVS = (0.5 absolute value of duration) + (0.125 convexity), assuming convexity is negative.

- To estimate PMVS-L, an instantaneous parallel 50 basis point shock is applied to the yield curve, as represented by the swap curve, holding all spreads to the swap curve constant. This shock is applied to the duration and convexity of all interest-rate sensitive financial instruments. The resulting change in market value for the aggregate portfolio is computed for both the up rate and down rate shock and the change in market value in the more adverse scenario of the up and

down rate shocks is the PMVS. In cases where both the up rate and down rate shocks result in a positive effect, the PMVS is zero. Because this process uses a parallel, or level, shock to interest rates, we refer to this measure as PMVS-L.

- To estimate sensitivity related to the shape of the yield curve, a yield curve steepening and flattening of 25 basis points is applied using the duration of all interest-rate sensitive instruments. The resulting change in market value for the aggregate portfolio is computed for both the steepening and flattening yield curve scenarios. The more adverse yield curve scenario is then used to determine the PMVS. Because this process uses a non-parallel shock to interest rates, we refer to this measure as PMVS-YC.

We estimate the sensitivity to changes in interest rates of the fair value of all financial assets and liabilities, including derivatives, on a pre-tax basis. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

- Credit guarantee activities - We do not consider the sensitivity of the fair value of credit guarantee activities to changes in interest rates except for the guarantee-related items mentioned above because we do not actively manage the change in the fair value of our guarantee business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guarantee business because these changes do not take into account the potential for future guarantee business activity.
- Other assets with minimal interest-rate sensitivity - We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because we estimate their impact on PMVS and duration gap to be minimal.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions. While we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. There could be times when we hedge differently than our model estimates during the period, such as 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 spread risk. The effect of these other market risks can be significant.

There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not consider other factors that may have a significant effect on our financial instruments, most notably business activities and strategic actions that management may take in the future to manage interest-rate risk. These analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets.

In addition, it has been more difficult in recent years to measure and manage the interest-rate risk related to mortgage assets as risk for prepayment model error remains high due to the low interest rate environment and uncertainty regarding default rates, unemployment, government policy changes and

programs, loan modifications, and the volatility and impact of home price movements on mortgage durations. Mis-estimation of prepayments, resulting in over or under hedging of interest-rate risk, could result in significant economic losses and have an adverse impact on earnings. In addition, this mis-estimation could result in realized losses upon the sale of assets.

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation for the years ended December 31, 2015 and 2014. 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. We are providing certain of the disclosures below pursuant to a disclosure commitment with FHFA.

(in millions)	PMVS-YC 25 bps	PMVS-L 50 bps	100 bps
Assuming shifts of the LIBOR yield curve:			
December 31, 2015	$12	$50	$186
December 31, 2014	$—	$102	$396

	Year Ended December 31,					
	2015			2014		
(duration gap in months, dollars in millions)	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps
Average	0.2	$17	$90	(0.1)	$14	$69
Minimum	(0.4)	$—	$23	(2.4)	$—	$—
Maximum	1.0	$47	$249	0.7	$65	$509
Standard deviation	0.3	$12	$40	0.4	$14	$79

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

	PMVS-L (50 bps)		
(in millions)	Before Derivatives	After Derivatives	Effect of Derivatives
December 31, 2015	$3,373	$50	$(3,323)
December 31, 2014	$3,226	$102	$(3,124)

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, the accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at December 31, 2015, we generally recognize fair value losses in earnings when interest rates decline. The table below presents the estimated adverse net effect on pre-tax earnings of certain immediate shifts in interest rates. These estimates are essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value, as discussed in "Consolidated Results of Operations - Interest-Rate Risk Management Activities." The methodology used to calculate

these figures is consistent with the methodology used to calculate our PMVS-YC and PMVS-L metrics above.

	GAAP FV-YC	GAAP FV-L	
(in millions)	25 bps	50 bps	100 bps
December 31, 2015	$635	$1,630	$3,573
December 31, 2014	$672	$1,176	$2,597

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

LIQUIDITY AND CAPITAL RESOURCES
OVERVIEW
Our business activities require that we maintain adequate liquidity to fund our operations, which primarily include the following:
- Principal payments due to the maturity, redemption or repurchase of our short- and long-term debt;
- Interest payments on our other debt securities;
- Dividend obligations on our senior preferred stock;
- Cash purchases of single-family and multifamily loans;
- Purchases of mortgage-related securities and non-mortgage investments;
- Removal of modified or seriously delinquent mortgage loans from PC trusts;
- Any shortfall related to the payments of principal and interest on our debt securities issued by consolidated trusts and any other payments related to our guarantees of mortgage assets;
- Any costs related to the disposition of our REO properties;
- Payments related to derivative contracts;
- Posting or pledging collateral to third parties in connection with secured financing and daily trade activities; and
- Administrative expenses.

We fund our cash needs primarily by issuing short- and long-term debt. Other sources of cash primarily include:
- Interest and principal payments on and sales of securities or loans that we hold in our mortgage-related investments portfolio or our liquidity and contingency operating portfolio;
- Repurchase transactions with counterparties;
- Management and guarantee fees we receive in connection with our guarantee activities, excluding those fees associated with the legislated 10 basis point increase we remit to Treasury; and
- Quarterly draws from Treasury under the Purchase Agreement, which are made if we have a quarterly deficit in our net worth.

In addition to the uses and sources of cash described above, we are involved in various legal proceedings, including those discussed in “Legal Proceedings,” which may result in a need to use cash to settle claims or pay certain costs or receipt of cash from settlements.

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. For a description of our debt products, see “Our Business Segments - Investments.”

LIQUIDITY MANAGEMENT FRAMEWORK

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.

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund our accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

Maintaining sufficient liquidity is of primary importance to, and a cost of, our business. Under our liquidity management practices and policies, we:

- Manage intraday cash needs and provide for the contingency of an unexpected cash demand;
- Maintain cash and non-mortgage investments to enable us to meet ongoing cash obligations for a limited period of time, assuming no access to unsecured debt markets;
- Maintain unencumbered securities with a value greater than or equal to the largest projected daily cash shortfall for an extended period of time, assuming no access to unsecured debt markets; and
- Manage the maturity of our unsecured debt based on our asset profile.

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 the timing of our cash flows. Differences between actual and forecasted cash flows have resulted in higher costs from issuing a higher amount of debt than needed or unexpectedly needing to issue debt, and may do so in the future. Differences between actual and forecasted cash flows also could result in an overdraw of our account at the Federal Reserve Bank of New York. We maintain daily cash reserves to manage this risk.

LIQUIDITY PROFILE

During 2015, the majority of the funds in our liquidity and contingency operating portfolio were deposited with the Federal Reserve Bank of New York, invested in U.S. Treasury securities, or invested in securities purchased under agreements to resell. In the event of a downgrade of a position or counterparty, as applicable, below minimum rating requirements, we make an assessment whether to exit the existing position or continue to do business with the counterparty.

During 2015, we had sufficient access to the debt markets due largely to support from the U.S. government. 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 was $563.6 billion in 2015 and declined to $479.0 billion on January 1, 2016. As of December 31, 2015, our aggregate indebtedness, calculated as the par value of other debt, was $418.0 billion. 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.

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.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. The reduction in our mortgage-related investments portfolio has reduced our funding needs. We expect that this trend will continue over time as the mortgage-related investments portfolio shrinks. Changes or perceived changes in the government's support of us could have a severe negative effect on our access to the debt markets and on our debt funding costs.

In addition, any change in applicable legislative or regulatory exemptions, including those described in “Regulation and Supervision,” could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs. For more information on our short- and long-term liquidity needs, see “Contractual Obligations.”

OTHER DEBT ACTIVITIES

We fund our business activities primarily through the issuance of short- and long-term debt. Competition for funding can vary with economic, financial market, and regulatory environments. Historically, we have mainly competed for funds in the debt issuance markets with Fannie Mae and the FHLBs. In recent years, we have witnessed a significant increase in FHLB short-term debt issuances and outstanding balances. Increased competition from the FHLBs with respect to short-term debt issuances may have caused our short-term debt spreads to increase during the last quarter of 2015.

The table below summarizes the par value of other debt securities we issued or paid off during 2015 and 2014, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including managing our funding composition and supporting the liquidity of our debt securities.

(dollars in millions)	Year Ended December 31, 2015		2014	
Beginning balance	$454,029		$511,345	
Issued during the period				
Short-term:				
Amount	$437,509		$217,716	
Weighted-average effective interest rate	0.11	%	0.11	%
Long-term:				
Amount	$168,581		$92,641	
Weighted-average effective interest rate	1.43	%	1.16	%
Total issued:				
Amount	$606,090		$310,357	
Weighted-average effective interest rate	0.48	%	0.42	%
Paid off during the period:				
Short-term:				
Amount	$(458,546	)	$(224,814	)
Weighted-average effective interest rate	0.07	%	0.12	%
Long-term:				
Amount	$(183,552	)	$(142,859	)
Weighted-average effective interest rate	1.44	%	1.61	%
Total paid off:				
Amount	$(642,098	)	$(367,673	)
Weighted-average effective interest rate	0.47	%	0.70	%
Ending balance	$418,021		$454,029	
Unamortized premiums and discounts	(3,684	)	(3,918	)
Hedging-related and other basis adjustments	17		(42	)
Other	(48	)	—	
Total other debt	$414,306		$450,069	

Issuances and pay-offs of short-term debt increased during 2015 compared to 2014 as we began utilizing overnight discount notes as a more cost efficient tool to manage our intra-day liquidity needs. In addition, issuances and pay-offs of long-term debt increased during 2015 compared to 2014 as we issued more long-term callable debt to replace debt that was called for economic reasons.

OTHER SHORT-TERM DEBT

The table below contains details on the characteristics of our other short-term debt.

	December 31, 2015				
	Ending Balance		Yearly Average		Maximum
(dollars in millions)	Carrying Value	Weighted Average Effective Rate	Carrying Value	Weighted Average Effective Rate	Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$104,027	0.28 %	$102,540	0.16 %	$123,248
Medium-term notes	9,545	0.20	3,173	0.09	9,454
Securities sold under agreements to repurchase	—	—	15	0.21	—
Total	$113,572	0.27			

	December 31, 2014				
	Ending Balance		Yearly Average		Maximum
(dollars in millions)	Carrying Value	Weighted Average Effective Rate	Carrying Value	Weighted Average Effective Rate	Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$134,619	0.12 %	$116,388	0.12 %	$134,619
Medium-term notes	—	—	750	0.16	4,000
Securities sold under agreements to repurchase	—	—	15	0.11	—
Total	$134,619	0.12			

	December 31, 2013				
	Ending Balance		Yearly Average		Maximum
(dollars in millions)	Carrying Value	Weighted Average Effective Rate	Carrying Value	Weighted Average Effective Rate	Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$137,712	0.13 %	$130,919	0.13 %	$140,082
Medium-term notes	4,000	0.16	2,291	0.16	4,000
Securities sold under agreements to repurchase	—	—	15	0.16	—
Total	$141,712	0.13			

For information about our other long-term debt, see Note 7.

DEBT SECURITIES OF CONSOLIDATED TRUSTS

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

	Year Ended December 31,	
(in millions)	2015	2014
Beginning balance	$1,440,325	$1,399,456
New issuances	353,882	257,293
Newly-issued debt securities retained at issuance	(93,992)	(47,792)
Net new issuances to third parties	259,890	209,501
Additional issuances of securities	137,676	92,053
Total issuances	397,566	301,554
Extinguishments, net	(324,802)	(260,685)
Ending balance	1,513,089	1,440,325
Unamortized premiums and discounts	43,032	39,148
Debt securities of consolidated trusts held by third parties	$1,556,121	$1,479,473

The table below provides information on the debt securities issued by our consolidated trusts as of the dates set forth below.

	December 31,	
(in millions)	2015	2014
Single-family		
PCs:		
30-year or more amortizing fixed-rate	$1,156,220	$1,088,340
20-year amortizing fixed-rate	81,255	78,603
15-year amortizing fixed-rate	281,165	278,282
Adjustable-rate	66,807	69,683
Interest-only	19,573	23,941
FHA/VA and other governmental	2,745	3,154
Total single-family PCs	1,607,765	1,542,003
Other single-family	5,824	7,030
Total single-family	1,613,589	1,549,033
Multifamily		
K Certificates	1,629	440
Other securitization products	82	84
Total multifamily	1,711	524
Total Freddie Mac mortgage-related securities	1,615,300	1,549,557
Repurchased or retained at issuance Freddie Mac mortgage-related securities	(102,211)	(109,232)
Debt securities of consolidated trusts held by third parties	$1,513,089	$1,440,325

SUBORDINATED DEBT

During 2015 and 2014, we did not call or issue any Freddie SUBS® securities. At both December 31, 2015 and 2014, the balance of our subordinated debt outstanding was $0.4 billion. Under the Purchase Agreement, we may not issue subordinated debt without Treasury’s consent.

CREDIT RATINGS

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. The table below indicates our credit ratings as of February 4, 2016.

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody's	Fitch
Senior long-term debt	AA+	Aaa	AAA
Short-term debt	A-1+	P-1	F1+
Subordinated debt	AA-	Aa2	AA-
Preferred stock[1]	D	Ca	C/RR6
Outlook	Stable	Stable	Stable

(1) 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.

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.

LIQUIDITY AND CONTINGENCY OPERATING PORTFOLIO

Excluding amounts related to our consolidated VIEs and collateral held by us from OTC derivative counterparties, we held $70.0 billion and $53.9 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at December 31, 2015 and 2014, respectively. These investments are important to our cash flow, collateral management, and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. At December 31, 2015, 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.

MORTGAGE LOANS AND MORTGAGE-RELATED SECURITIES

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities.

In addition, we hold unsecuritized single-family loans and multifamily held-for-sale loans that could be securitized and would then be available for sale or use as collateral for repurchase agreements. Due to the large size of our portfolio of liquid assets, the amount of mortgage-related assets that we may successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially less than the amount of mortgage-related assets we hold. There would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to sell or borrow against these assets.

We hold other mortgage assets, but given their characteristics, they may not be available for immediate sale or able to be used as collateral for repurchase agreements. These assets consist of certain structured agency securities collateralized by non-agency mortgage-related securities, 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 loans.

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.

CASH FLOWS

Cash and cash equivalents decreased $5.3 billion to $5.6 billion during 2015, as compared to a decrease of $0.4 billion to $10.9 billion during 2014 and an increase of $2.8 billion to $11.3 billion during 2013. Cash flows used in operating activities during 2015 were primarily driven by increased net purchases of held-for-sale mortgage loans. Cash flows used in operating activities during 2015 were $0.9 billion. Cash flows provided by operating activities during 2014 and 2013 were $8.9 billion and $16.6 billion, respectively, primarily driven by cash proceeds from net interest income and non-agency mortgage-related securities settlements. Cash flows provided by investing activities during 2015, 2014, and 2013 were $179.0 billion, $205.3 billion, and $391.3 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 2015, 2014, and 2013 were $183.3 billion, $214.5 billion, and $405.0 billion, respectively, primarily driven by net funds used to repay or redeem debt securities of consolidated trusts held by third parties and other debt.

CAPITAL RESOURCES

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

available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws.

At December 31, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at December 31, 2015 and the 2016 Capital Reserve Amount of $1.2 billion, our dividend obligation to Treasury in March 2016 will be $1.7 billion.

Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. As a result of the net worth sweep dividend on the senior preferred stock, our future profits will effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury. See “Conservatorship and Related Matters” and “Regulation and Supervision” for more information.

The table below presents activity related to our equity capital during the last five quarters.

	Three Months Ended					Year Ended
(in millions)	12/31/2015	9/30/2015	6/30/2015	3/31/2015	12/31/2014	12/31/2015
Beginning balance	$1,299	$5,713	$2,546	$2,651	$5,186	$2,651
Comprehensive income	1,641	(501)	3,913	746	251	5,799
Capital draw from Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	—	(3,913)	(746)	(851)	(2,786)	(5,510)
Total equity / net worth	$2,940	$1,299	$5,713	$2,546	$2,651	$2,940
Aggregate draws under Purchase Agreement	$71,336	$71,336	$71,336	$71,336	$71,336	$71,336
Aggregate cash dividends paid to Treasury	$96,465	$96,465	$92,552	$91,806	$90,955	$96,465

CONSERVATORSHIP AND RELATED MATTERS

SUPERVISION OF OUR COMPANY DURING CONSERVATORSHIP

FHFA has broad powers when acting as our Conservator. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets. The Conservator also succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party.

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

We conduct our business subject to the direction of FHFA as our Conservator. The Conservator has delegated certain authority to the Board of Directors to oversee, and to management to conduct, business operations so we can operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator. The Conservator retains the authority to withdraw or revise its delegations of authority at any time. The Conservator also retains certain significant authorities for itself, and has not delegated them to the Board. The Conservator continues to provide strategic direction for the company and directs the efforts of the Board and management to implement its strategy. Despite the delegations of authority to management, many management decisions are subject to review and/or approval by FHFA and management frequently receives direction from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we received from the Conservator including the Conservatorship Scorecards. At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives. Given our public mission and the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions, we sometimes take actions that could have a negative impact on our business, operating results or financial condition, and thus contribute to a need for additional draws under the Purchase Agreement. Certain of these actions are intended to help homeowners and the mortgage market.

TREASURY AGREEMENTS AND SENIOR PREFERRED STOCK

In connection with our entry into conservatorship, we entered into the Purchase Agreement with Treasury. Under the Purchase Agreement, we issued to Treasury both senior preferred stock and a warrant to purchase common stock. We refer to the Purchase Agreement and the warrant as the "Treasury Agreements." The Treasury Agreements and the senior preferred stock do not contain any provisions causing them to terminate or cease to exist upon the termination of conservatorship. The conservatorship, the Treasury Agreements and the senior preferred stock materially limit the rights of our common and

preferred stockholders (other than Treasury).

Pursuant to the Purchase Agreement, which we entered into through FHFA, in its capacity as Conservator, on September 7, 2008, we issued to Treasury one million shares of Variable Liquidation Preference Senior Preferred Stock with an initial liquidation preference of $1 billion and a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares outstanding. The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of Treasury's commitment to provide funding to us under the Purchase Agreement. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. However, deficits in our net worth have made it necessary for us to make substantial draws on Treasury’s funding commitment under the Purchase Agreement. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP consolidated balance sheet for the applicable fiscal quarter, provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury's commitment. As of December 31, 2015, the aggregate liquidation preference of the senior preferred stock was $72.3 billion, and the amount of available funding remaining under the Purchase Agreement was $140.5 billion. To the extent we draw additional funds in the future, the aggregate liquidation preference will increase and the amount of available funding remaining will decrease.

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers and privileges of the Board. Under the August 2012 amendment to the Purchase Agreement, our dividend obligation each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. As a result of the net worth sweep dividend, our future profits will effectively be distributed to Treasury, and the holders of our common stock and non-senior preferred stock will not receive benefits that could otherwise flow from any such future profits.

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury’s funding commitment under the Purchase Agreement.

The Purchase Agreement and warrant contain covenants that significantly restrict our business and capital activities. For example, the Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- Pay dividends on our equity securities, other than the senior preferred stock or warrant, or repurchase our equity securities;
- Issue any additional equity securities, except in limited instances;
- Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value in the ordinary course of business, consistent with past practices, and in other limited circumstances; and

- Issue any subordinated debt.

LIMITS ON OUR MORTGAGE-RELATED INVESTMENTS PORTFOLIO AND INDEBTEDNESS

Our ability to acquire and sell mortgage assets is significantly constrained by limitations under the Purchase Agreement and other limitations 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.
- Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year.
- Our Retained Portfolio Plan, which we adopted in 2014, provides for us to manage the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement, subject to certain exceptions. Under the plan, we may seek permission from FHFA to increase the plan's limit on the mortgage-related investments portfolio to 95% of the Purchase Agreement annual cap.
- FHFA indicated that any portfolio sales should be commercially reasonable transactions that consider impacts to the market, borrowers and neighborhood stability.

Our decisions with respect to managing the decline of the mortgage-related investments portfolio affect all three business segments. In order to achieve all of our portfolio reduction goals, it is possible that we may forgo economic opportunities in one business segment in order to pursue opportunities in another business segment. The reduction in the mortgage-related investments portfolio will result in a decline in income from this portfolio over time.

Our results against the limits imposed on our mortgage-related investments portfolio and aggregate indebtedness are shown below.

Mortgage Assets

Indebtedness

Reducing Our Mortgage-Related Investments Portfolio Over Time

Our mortgage-related investments portfolio includes assets held by all three business segments and consists of:
- Agency securities, which include both single-family and multifamily Freddie Mac mortgage-related securities and non-Freddie Mac agency mortgage-related securities;
- Non-agency mortgage-related securities, which include single-family non-agency mortgage-related securities, CMBS, housing revenue bonds, and other multifamily securities; and
- Single-family and multifamily unsecuritized loans.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on three categories (in order of liquidity):
- Liquid: single-class and multi-class agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities;
- Securitization Pipeline: performing multifamily and single-family loans purchased for cash and primarily held for a short period until securitized, with the resulting Freddie Mac issued securities being sold or retained; and

- Less Liquid: assets that are less liquid than agency securities and loans in the securitization pipeline (e.g., reperforming loans and performing modified loans and non-agency mortgage-related securities).

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.

	December 31, 2015				December 31, 2014			
(dollars in millions)	Liquid	Securitiz-ation Pipeline	Less Liquid	Total	Liquid	Securitiz-ation Pipeline	Less Liquid	Total
Investments segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$—	$10,041	$—	$10,041	$—	$7,497	$—	$7,497
Reperforming loans and performing modified loans	—	—	67,036	67,036	—	—	75,281	75,281
Total single-family unsecuritized loans	—	10,041	67,036	77,077	—	7,497	75,281	82,778
Freddie Mac mortgage-related securities	135,869	—	6,076	141,945	150,852	—	7,363	158,215
Non-agency mortgage-related securities	—	—	27,754	27,754	—	—	44,230	44,230
Non-Freddie Mac agency mortgage-related securities	12,958	—	—	12,958	16,341	—	—	16,341
Total Investment segment - Mortgage investments portfolio	148,827	10,041	100,866	259,734	167,193	7,497	126,874	301,564
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	19,501	19,501	—	—	28,738	28,738

Multifamily segment - unsecuritized loans and mortgage-related securities	7,304	19,563	40,809	67,676	1,911	12,111	64,090	78,112
Total mortgage-related investments portfolio	$156,131	$29,604	$161,176	$346,911	$169,104	$19,608	$219,702	$408,414
Percentage of total mortgage-related investments portfolio	45 %	9 %	46 %	100 %	41 %	5 %	54 %	100 %
Mortgage-related investments portfolio cap at December 31, 2015 and 2014, respectively				$399,181				$469,625
90% of mortgage-related investments portfolio cap at December 31, 2015[1]				$359,263				

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

We are particularly focused on reducing, in an economically sensible manner, the balance of less liquid assets that we hold in our portfolio. Our efforts to reduce our holdings of these assets help satisfy several objectives, including to improve the overall liquidity of our mortgage-related investments portfolio and comply with the mortgage-related investments portfolio limits. The decline in our holdings of less liquid assets included pay-downs and active dispositions and accounted for the majority of the decline in our mortgage-related investments portfolio during 2015. Our active dispositions of less liquid assets included the following:

- Sales of $14.7 billion of less liquid assets, including $11.4 billion in UPB of non-agency mortgage-related securities and $2.9 billion in UPB of seriously delinquent unsecuritized single-family loans;
- Securitization of $8.2 billion of single-family reperforming loans and performing modified loans, which included HAMP loans; and
- Enhanced the liquidity of $2.9 billion of multifamily non-agency mortgage-related securities through resecuritization. We retained these more liquid securities in our mortgage-related investments portfolio.

FHFA'S STRATEGIC PLAN FOR FREDDIE MAC AND FANNIE MAE CONSERVATORSHIPS

In May 2014, FHFA issued its 2014 Strategic Plan. In January and December 2015, FHFA issued the 2015 and 2016 Conservatorship Scorecards, respectively. The 2014 Strategic Plan updated FHFA's vision for implementing its obligations as Conservator of Freddie Mac and Fannie Mae. The Conservatorship Scorecards established annual objectives and performance targets and measures for Freddie Mac and Fannie Mae related to the strategic goals set forth in the 2014 Strategic Plan.

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

- Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced loans 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 Freddie Mac and Fannie Mae and adaptable for use by other participants in the secondary market in the future.

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

For information about the 2015 Conservatorship Scorecard, and our performance with respect to it, see "Executive Compensation - Compensation Discussion and Analysis." For information about the 2016 Conservatorship Scorecard, see our current report on Form 8-K filed on December 18, 2015.

For more information on the conservatorship and related matters, see "Regulation and Supervision," "Risk Factors - Conservatorship and Related Matters," Note 2, Note 10, and "Directors, Corporate Governance, and Executive Officers - Authority of the Board and Board Committees."

REGULATION AND SUPERVISION

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

FEDERAL HOUSING FINANCE AGENCY

FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae, and the FHLBs.

Under the GSE Act, FHFA has safety and soundness authority that is comparable to, and in some respects, broader than that of the federal banking agencies. FHFA is responsible for implementing the various provisions of the GSE Act that were added by the Reform Act.

Receivership

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

Certain aspects of conservatorship and receivership operations of Freddie Mac, Fannie Mae and the FHLBs are addressed in an FHFA rule. Among other provisions, the rule indicates that FHFA generally will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of receivership and that capital distributions may not be made during conservatorship, except as specified in the rule.

Capital Standards

FHFA suspended capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA-directed regulatory capital requirements are not binding during the conservatorship. These capital standards are described in Note 16. Under the GSE Act, FHFA has the authority to increase our minimum capital levels temporarily or to establish additional capital and reserve requirements for particular purposes.

Pursuant to an FHFA rule, FHFA-regulated entities are required to conduct annual stress tests to determine whether such companies have sufficient capital to absorb losses as a result of adverse

economic conditions. Under the rule, Freddie Mac is required to conduct annual stress tests using scenarios specified by FHFA that reflect a minimum of three sets of economic and financial conditions and publicly disclose the results of the stress test under the “severely adverse” scenario. In April 2015, we disclosed the results of our most recent "severely adverse" scenario stress test which projected an improvement in the amount of available funding remaining under the Purchase Agreement compared to the test results disclosed in April 2014.
For additional information, see “Liquidity And Capital Resources - Capital Resources.”

New Products

The GSE Act requires Freddie Mac and Fannie Mae to obtain the approval of FHFA before initially offering any product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice of any new activity that we consider not to be a product. While FHFA published an interim final rule on prior approval of new products, it stated that permitting us to engage in new products is inconsistent with the goals of conservatorship and instructed us not to submit such requests under the interim final rule.

Affordable Housing Goals

We are subject to annual affordable housing goals. We view the purchase of loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business, and we are committed to facilitating the financing of affordable housing for very low-, low-, and moderate-income families. In light of these goals, we may make adjustments to our strategies for purchasing loans, which could potentially increase our credit losses. These strategies could include entering into purchase and securitization transactions with lower expected economic returns than our typical transactions. In February 2010, FHFA stated that it does not intend for us to undertake uneconomic or high risk activities in support of the housing goals nor does it intend for the state of conservatorship to be a justification for withdrawing our support from these market segments.
If the Director of FHFA finds that we failed (or there is a substantial probability that we will fail) to meet a housing goal and that achievement of the housing goal was or is feasible, the Director may require the submission of a housing plan that describes the actions we will take to achieve the unmet goal. FHFA has the authority to take actions against us if we fail to submit a required housing plan, submit an unacceptable plan, fail to comply with a plan approved by FHFA, or fail to submit certain mortgage purchase data, information or reports as required by law. See “Risk Factors - Legal And Regulatory Risks - We may make certain changes to our business in an attempt to meet our housing goals and subgoals, which may cause us to forgo other more profitable opportunities.”
Current FHFA housing goals applicable to our purchases consist of four goals and one subgoal for single-family owner-occupied housing, one multifamily affordable housing goal, and two multifamily affordable housing subgoals. Single-family goals are expressed as a percentage of the total number of eligible loans underlying our total single-family loan purchases, while the multifamily goals are expressed in terms of minimum numbers of units financed.
Three of the single-family housing goals and the subgoal target purchase money loans for low-income families, very low-income families, and/or families that reside in low-income areas. The single-family housing goals also include one goal that targets refinancing loans for low-income families. The multifamily

affordable housing goal targets multifamily rental housing affordable to low-income families. The multifamily affordable housing subgoals target multifamily rental housing affordable to very low-income families and small (5- to 50-unit) multifamily properties affordable to low-income families.

The single-family goals are measured by comparing our performance with the actual share of the market that meets the criteria for each goal and a benchmark level established by FHFA. If our performance on a single-family goal falls short of the benchmark, we still could achieve the goal if our performance meets or exceeds the actual share of the market that meets the criteria for the goal for that year.

In August 2015, FHFA issued the final rule establishing affordable housing goals for Freddie Mac and Fannie Mae for 2015 through 2017. The rule applies retroactively to the beginning of 2015. Under FHFA's final rule:

- The benchmark levels for three of our single-family goals increased;
- Both of our multifamily goals increased; and
- FHFA established a new subgoal related to small (5- to 50-unit) multifamily properties affordable to low-income families.

Our goals for 2015, 2016, and 2017 are set forth below.

	2015		2016		2017	
Single-family purchase money goals (benchmark levels):						
Low-income	24	%	24	%	24	%
Very low-income	6	%	6	%	6	%
Low-income areas	19	%	TBD		TBD	
Low-income areas subgoal	14	%	14	%	14	%
Single-family refinance low-income goal (benchmark level)	21	%	21	%	21	%
Multifamily low-income goal (in units)	300,000		300,000		300,000	
Multifamily very low-income subgoal (in units)	60,000		60,000		60,000	
Multifamily small property low-income subgoal (in units)	6,000		8,000		10,000	

We expect to report our performance with respect to the 2015 affordable housing goals in March 2016. At this time, based on preliminary information, we believe we met three of our single-family goals and our three multifamily goals for 2015, but believe we failed to meet the FHFA benchmark level for the other single-family goals. FHFA will not be able to make a final determination on our performance until market data is released in October 2016.

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and allocate or transfer such amount to certain housing funds. FHFA suspended the requirement to set aside or allocate funds when we were placed into conservatorship. However, in December 2014, FHFA terminated the suspension and directed us to begin setting aside amounts, in accordance with the following terms and conditions:

- The amount we will set aside each fiscal year, commencing with fiscal year 2015, will be based on our total new business purchases during such fiscal year; and
- Within 60 days after the end of each fiscal year commencing with fiscal year 2015, we will transfer the

amount set aside. However, if we have made a draw under the Purchase Agreement during that fiscal year or if such transfer will cause us to have to make a draw, then we will not make a transfer and the amount set aside for that fiscal year will be reversed.

We are prohibited from passing through the costs of these allocations to the originators of the loans that we purchase. During 2015, we completed $393.8 billion of new business purchases subject to these allocations and accrued $165 million of related expense. In accordance with the GSE Act and as directed by FHFA, we expect to pay this total amount in February 2016 through the following payments: $80.6 million to the Housing Trust Fund administered by HUD; $43.4 million to the Capital Magnet Fund administered by Treasury; and $41.3 million to the HOPE Reserve Account administered by Treasury.

Portfolio Activities

The GSE Act provides FHFA with power to regulate the size and content of our mortgage-related investments portfolio. The GSE Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA adopted the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement. See "Conservatorship And Related Matters - Limitations On Our Mortgage-Related Investments Portfolio And Indebtedness" for more information.

Subordinated Debt

FHFA directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

DEPARTMENT OF THE TREASURY

Treasury has significant rights and powers as a result of the Purchase Agreement. In addition, under our Charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. In addition, our Charter authorizes Treasury to purchase Freddie Mac debt

obligations not exceeding $2.25 billion in aggregate principal amount at any time.

CONSUMER FINANCIAL PROTECTION BUREAU

The CFPB regulates consumer financial products and services. The CFPB adopted a number of final rules relating to loan origination, finance, and servicing practices that generally went into effect in January 2014. The rules include an ability-to-repay rule, which requires loan originators to make a reasonable and good faith determination that a borrower has a reasonable ability to repay the loan according to its terms. This rule provides certain protection from liability for originators making loans that satisfy the definition of a qualified loan. The ability-to-repay rule applies to most loans acquired by Freddie Mac, and for loans covered by the rule, FHFA has directed us to limit our single-family acquisitions to loans that generally would constitute qualified loans under applicable CFPB regulations. The directive generally restricts us from acquiring loans that are not fully amortizing, have a term greater than 30 years, or have points and fees in excess of 3% of the total loan amount.

SECURITIES AND EXCHANGE COMMISSION

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

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

LEGISLATIVE AND REGULATORY DEVELOPMENTS

Legislation Related to Freddie Mac and its Future Status

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

Congress held hearings and considered legislation on the future state of Freddie Mac, Fannie Mae, and the housing finance system during 2015. A number of bills were introduced in Congress in 2015 relating to the future status of Freddie Mac, Fannie Mae, and the secondary mortgage market. Several of the bills considered by Congress would have placed us into receivership and materially affected our business prior to our eventual liquidation. It is likely that additional bills related to Freddie Mac, Fannie Mae, and the future of the mortgage finance system will be introduced in and considered by Congress. We cannot predict whether any of such bills will be enacted.

The Equity in Government Compensation Act of 2015 was enacted in November 2015. On December 1, 2015, pursuant to the Act, FHFA directed us to suspend the current compensation package for our CEO

effective as of November 25, 2015, and replace it with the CEO compensation package that was in place on January 1, 2015. For more information, see “Executive Compensation - Compensation Discussion and Analysis.”
On December 18, 2015, the President signed into law the Consolidated Appropriations Act, 2016 which includes a provision that prohibits the sale, transfer, liquidation, relinquishment, or divestiture by Treasury of the government’s stake in Freddie Mac and Fannie Mae until 2018 without future legislation. The Act also terminates the MHA Program as of December 31, 2016.

2014 Affordable Housing Goals and Housing Plan

In December 2015, FHFA determined that we achieved three of our five single-family affordable housing goals and both of our multifamily goals for 2014. In 2014, we purchased approximately 108,900 and 25,200 loans that contributed to our single-family low-income and very low-income purchase money goals. However, we missed these goals by approximately 9,600 loans and 4,400 loans, respectively. Because we failed to meet these two goals for 2014, FHFA required us to submit a housing plan that indicates how we plan to meet the missed goals in 2016 and 2017. We submitted our housing plan in February 2016. Our performance compared to our goals, as determined by FHFA for 2014 and 2013, is set forth below.

	Goals for 2014	Market Level for 2014	Results for 2014	Goals for 2013	Market Level for 2013	Results for 2013
Single-family purchase money goals (benchmark levels):						
Low-income	23 %	22.8 %	21.0 %	23 %	24.0 %	21.8 %
Very low-income	7 %	5.7 %	4.9 %	7 %	6.3 %	5.5 %
Low-income areas	18 %	22.1 %	20.1 %	21 %	22.1 %	20.0 %
Low-income areas subgoal	11 %	15.0 %	13.6 %	11 %	14.2 %	12.3 %
Single-family refinance low-income goal (benchmark level)	20 %	25.0 %	26.4 %	20 %	24.3 %	24.1 %
Multifamily low-income goal (in units)	200,000	N/A	273,434	215,000	N/A	254,628
Multifamily very low-income subgoal (in units)	40,000	N/A	48,689	50,000	N/A	56,752

Proposed Rule on Duty to Serve Underserved Markets

The GSE Act establishes a duty for Freddie Mac and Fannie Mae to serve three underserved markets (manufactured housing, affordable housing preservation and rural areas) by developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low- and moderate-income families in those markets.
In December 2015, FHFA published a proposed rule regarding the duty of Freddie Mac and Fannie Mae to serve these underserved markets. Under the proposed rule, Freddie Mac and Fannie Mae would each be required to submit to FHFA an underserved markets plan covering a three-year period that describes the activities and objectives it will undertake to meet its duty to serve. The proposed rule would provide duty to serve credit for eligible activities that facilitate a secondary market for mortgages on residential properties in the specified underserved markets. It would also establish a method for evaluating and

rating Freddie Mac’s and Fannie Mae’s performance each year, on which FHFA would report annually to Congress. We cannot predict the content of any final rule that FHFA may adopt, or the impact that such final rule will have on our business or operations. If the December 2015 rule proposal is adopted, it is possible that it could have an adverse effect on our profitability.

Final Rule on Margin and Capital Requirements for Covered Swap Entities

In October 2015, FHFA and several other agencies jointly issued a final rule governing margin and capital requirements for covered swap entities pursuant to authority under the Dodd-Frank Act. The final rule imposes initial and variation margin requirements for swaps that are not cleared through central clearinghouses, including: obligations to post and collect initial and variation margin; eligibility, valuation and segregation of collateral; margin model methodologies; documentation; and other requirements. While an increasing number of our interest rate swap transactions are cleared, we continue to execute uncleared swap transactions, which will be affected by these rules.

Final Rule on Risk Retention

In October 2014, six agencies, including FHFA, issued a rule that 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 risk retention requirements became applicable to new single-family loan securitizations issued beginning in December 2015 and will apply to new multifamily securitizations issued beginning in December 2016. A provision in the rule indicates that our fully guaranteed securitizations generally satisfy the risk retention requirements for so long as we are in conservatorship or receivership and receiving federal financial support. However, this provision does not apply to our securitization structures that are not fully guaranteed. In December 2015, FHFA indicated that it will exercise its authority under the rule to direct Freddie Mac to sell or otherwise hedge credit risk in certain securitizations that are not fully guaranteed that we would otherwise be required to retain under the rule.

Industry Letter on Integrated Mortgage Disclosure Rule

On October 6, 2015, at the direction of FHFA, we issued an industry letter concerning the CFPB’s Know Before You Owe Truth-in-Lending Act - Real Estate Settlement Procedures Act Integrated Mortgage Disclosure Rule (the “TRID rule”), which went into effect on October 3, 2015. In the letter, we noted, among other items, that:

- We expect seller/servicers to make good faith efforts to comply with the TRID rule, and failure to use a TRID Rule-required form will be deemed a violation of the good faith efforts standard and will render the mortgage subject to all contractual remedies, including repurchase;
- We will not conduct routine post-purchase loan file reviews for technical compliance with the TRID rule, until further notice; and
- After a transitional period, we will consider whether to begin such reviews for technical compliance.

CONTRACTUAL OBLIGATIONS

Our contractual obligations affect our short- and long-term liquidity and capital resource needs. The table below provides aggregated information about the listed categories of our contractual obligations as of December 31, 2015. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities (other than debt securities of consolidated trusts held by third parties). The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases.

The amounts of future interest payments on debt securities outstanding at December 31, 2015 are based on the contractual terms of our debt securities at that date. These amounts were determined using certain assumptions, including that variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2015 until maturity and callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2015, such as changes in interest rates, the call or retirement of any debt securities, and the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

Our contractual obligations include purchase obligations that are enforceable and legally binding, and exclude contracts that we may cancel without penalty. We include our purchase obligations through the termination date specified in the respective agreement, even if the contract is renewable.

The table excludes certain obligations that could significantly affect our short- and long-term liquidity and capital resource needs. These items, which are listed below, have generally been excluded because the amount and timing of the related future cash payments are uncertain:

- Future payments of principal and interest related to debt securities of consolidated trusts held by third parties because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain. These payments generally include payments of principal and interest we make to the holders of our guaranteed mortgage-related securities in the event a loan underlying a security becomes delinquent. We remove loans from pools underlying our PCs in certain circumstances, including when loans are 120 days or more delinquent, and retire the associated PC debt;
- Future cash payments associated with the liquidation preference of the senior preferred stock, the quarterly commitment fee (which has been suspended), and the dividends on the senior preferred stock;
- Future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon items such as changes in interest rates;
- Future dividends on outstanding preferred stock (other than the senior preferred stock), because dividends on these securities are non-cumulative and because we are currently prohibited from paying dividends on these securities;
- Future cash payments related to the 4.2 basis points of each dollar of total new business purchases that we are required by the GSE Act to allocate or transfer to certain housing funds, because the amount and timing of such allocations or transfers is dependent on the volume of our new business purchases; and

- The guarantee arrangements pertaining to multifamily housing revenue bonds, where we provided commitments to advance funds.

The table below presents our contractual obligations, by year, at December 31, 2015.

(in millions)	Total	2016	2017	2018	2019	2020	Thereafter
Long-term debt[1]	$304,388	$58,765	$91,543	$48,189	$31,352	$26,697	$47,842
Short-term debt[1]	113,633	113,633	—	—	—	—	—
Interest payable[2]	32,646	11,042	4,271	3,024	2,404	2,019	9,886
Other liabilities reflected on our consolidated balance sheet:							
Other contractual liabilities[3][4]	2,464	1,751	8	7	6	7	685
Purchase obligations:							
Purchase commitments[5]	25,692	25,692	—	—	—	—	—
Other purchase obligations[6]	1,371	194	149	137	128	104	659
Lease obligations	35	11	8	6	5	3	2
Total specified contractual obligations	$480,229	$211,088	$95,979	$51,363	$33,895	$28,830	$59,074

(1) Represents par value. Callable debt is included in this table at its contractual maturity. For additional information about our debt, see Note 7.

(2) Includes estimated future interest payments on our short-term and long-term debt securities as well as the accrual of periodic cash settlements of derivatives, netted by counterparty. Also includes accrued interest payable recorded on our consolidated balance sheet.

(3) Includes obligations related to our qualified and non-qualified defined contribution plans, retiree medical plan, and other benefit plans.

(4) Other contractual liabilities include future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships and payables to the consolidated trusts established for the administration of cash remittances received related to the underlying assets of Freddie Mac mortgage-related securities.

(5) Purchase commitments represent our obligations to purchase loans and mortgage-related securities from third parties, most of which are accounted for as derivatives in accordance with the accounting guidance for derivatives and hedging.

(6) Primarily includes unconditional purchase obligations that are legally binding and that are subject to a cancellation penalty.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or that may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. See Note 2 and Note 3 for more information on our off-balance sheet securitization activities and other guarantees.

SECURITIZATION ACTIVITIES AND OTHER GUARANTEES

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees.

Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $127.3 billion and $113.7 billion at December 31, 2015 and 2014, 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 $8.9 billion and $9.6 billion at December 31, 2015 and 2014, 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. At both December 31, 2015 and 2014, there were no liquidity guarantee advances outstanding.

In addition, as part of the HFA initiative, we, together with Fannie Mae, provided liquidity guarantees for certain variable-rate multifamily housing revenue bonds, under which Freddie Mac generally was obligated to purchase 50% of any tendered bonds that could not be remarketed within five business days. At December 31, 2014, there were no bonds purchased under the liquidity guarantees. As of July 2015, all of the HFAs had exited the HFA initiative and the liquidity guarantees expired.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements, which may include recourse and primary mortgage insurance with third parties. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses.

OTHER AGREEMENTS

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs’ assets and liabilities.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments

for loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. For more information, see “Risk Management - Credit Risk - Institutional Credit Risk - Derivative Counterparties” and Note 9. 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 loans. These non-derivative commitments totaled $258.4 billion and $271.2 billion in notional value at December 31, 2015 and 2014, respectively.
In connection with the execution of the Purchase Agreement, we, through FHFA, in its capacity as Conservator, issued a warrant to Treasury to purchase 79.9% of our common stock outstanding on a fully diluted basis on the date of exercise. See Note 10 for further information.

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 the single-family allowance for loan losses and fair value measurements.

In the first quarter of 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures, including guidelines for recognizing charge-offs on certain single-family loans. Consequently, as of January 1, 2015, we changed when we deem a loan to be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for loans that have been deemed uncollectible prior to foreclosure. For additional information about our critical accounting policies and estimates and other significant accounting policies, as well as recently issued accounting guidance, see Note 1.

SINGLE-FAMILY ALLOWANCE FOR LOAN LOSSES

The single-family allowance for loan losses represents an estimate of probable incurred credit losses. The single-family allowance for loan losses pertains to all single-family loans classified as held-for-investment on our consolidated balance sheets.

Determining the appropriateness of the single-family allowance for loan losses is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. This process involves the use of models that require us to make judgments about matters that are difficult to predict, the most significant of which are the probability of default and loss severity. We regularly evaluate the underlying estimates and models we use when determining the single-family allowance for loan losses and update our assumptions to reflect our historical experience and current view of economic factors. See “Risk Factors - Operational Risks - We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes.”

We believe the level of our single-family allowance for loan losses is appropriate based on internal reviews of the factors and methodologies used. No single statistic or measurement determines the appropriateness of the allowance for loan losses. Changes in one or more of the estimates or assumptions used to calculate the single-family allowance for loan losses could have a material impact on the loan loss reserves and provision for credit losses.

Most single-family loans are aggregated into pools based on similar risk characteristics and measured

collectively using a statistically based model that evaluates a variety of factors affecting collectability, including but not limited to current LTV ratios, loan product type, delinquency/default status and history, and geographic location. Inputs used by the model are regularly updated for changes in the underlying data, assumptions, and market conditions. We consider the output of this model together with other information such as our expectations with respect to the following:

- Future levels of loan modifications;
- Future loan repurchases by seller/servicers;
- The adequacy of third-party credit enhancements;
- The effects of changes in government policies and programs;
- The effects of macroeconomic variables such as rates of unemployment; and
- The effects of home price changes on borrower behavior.

The inability to realize the benefits of our loss mitigation activities, a lower realized rate of seller/servicer repurchases, declines in home prices, deterioration in the financial condition of our mortgage insurers, or increases in delinquency rates would cause our losses to be significantly higher than those currently estimated.

Individually impaired single-family loans include loans that have undergone a TDR and are measured for impairment as the excess of our recorded investment in the loan over the present value of the expected future cash flows. Our expectation of future cash flows incorporates many of the judgments indicated above.

FAIR VALUE MEASUREMENTS

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Assets and liabilities within our consolidated financial statements measured at fair value include:

- Mortgage-related and non-mortgage related securities;
- Certain loans held-for-sale;
- Derivative instruments;
- Certain debt securities of consolidated trusts held by third parties and certain other debt; and
- Certain REO assets.

The accounting guidance for fair value measurements establishes a framework for measuring fair value, and also establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the assumptions a market participant would use at the measurement date. Fair value measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. The measurement of fair value requires management to make judgments and assumptions. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our consolidated statements of comprehensive income and consolidated balance sheets. See Note 14 for additional information regarding fair value hierarchy and measurements.

RISK FACTORS

The following section discusses material risks and uncertainties that could adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

CONSERVATORSHIP AND RELATED MATTERS

Freddie Mac's future is uncertain.

It is possible and perhaps likely that future legislative or regulatory action will materially affect our role, business model, structure, and results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company, or at all. If any of these events occur, our shares could further diminish in value, or cease to have any value. Our stockholders may not receive any compensation for such loss in value.

Several bills were introduced in Congress in 2014 and 2015 concerning the future status of Freddie Mac, Fannie Mae, and the mortgage finance system, including bills which provided for the wind down of Freddie Mac and Fannie Mae or modification of the terms of the Purchase Agreement. The Administration has recommended reducing the role of Freddie Mac and Fannie Mae and ultimately winding down both companies.

The conservatorship is indefinite in duration. The timing, likelihood, and circumstances under which we might emerge from conservatorship are uncertain. Treasury would be required to consent to the termination of the conservatorship, other than in connection with receivership, and there can be no assurance it would do so. Even if the conservatorship is terminated, we would remain subject to the Purchase Agreement and the terms of the senior preferred stock. It is possible that the conservatorship could end with our being placed into receivership.

Because Treasury holds a warrant to acquire almost 80% of our common stock for nominal consideration, we could effectively remain under the control of the U.S. government even if the conservatorship is ended and the voting rights of common stockholders are restored. If Treasury exercises the warrant, the ownership interest in the company of our existing common stockholders will be substantially diluted.

In the past several years, a number of lawsuits were filed against the U.S. government, Freddie Mac and Fannie Mae challenging certain government actions related to the conservatorship and the Purchase Agreement. This may add to the uncertainty surrounding our future.

For more information, see "MD&A - Regulation and Supervision - Legislative and Regulatory Developments," "Legal Proceedings," and Note 15.

We cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018), which increases the likelihood that we may request additional draws under the Purchase Agreement in future periods.

We cannot retain capital from the earnings generated by our business operations, as a result of the net worth sweep dividend. This increases the likelihood that we will require draws in future periods, particularly as the required Capital Reserve Amount (which is $1.2 billion for 2016) declines over time. A variety of factors could influence whether we could require a draw, including the following:

- Deterioration of economic conditions, including increased levels of unemployment and declines in home prices or family incomes;
- Adverse changes in interest rates, yield curves, implied volatility or spreads, which could affect our financial assets and liabilities, including derivatives, and increase realized and unrealized losses recorded in earnings or AOCI;
- The required reductions in the size of our mortgage-related investments portfolio, reductions of higher yielding assets, or other limitations on our investment activities that reduce our earnings capacity;
- The success of any transactions or other steps we may take in an effort to mitigate the risk of needing additional draws from Treasury;
- Restrictions on our single-family guarantee activities that could reduce our income from these activities;
- Restrictions on the volume of multifamily business we may conduct or other limits on multifamily business activities that could reduce our income from these activities;
- Adverse changes in our liquidity or funding costs, or limitations on our access to public debt markets;
- A failure of one or more of our major counterparties to meet their obligations to us;
- Changes in accounting policies, practices, or guidance;
- The effects of our foreclosure prevention and loss mitigation efforts;
- Changes in housing or economic conditions, legislation, including reductions in corporate tax rates, or other factors that affect our assessment of our ability to realize our net deferred tax asset, and cause us to establish a valuation allowance against our net deferred tax asset; or
- Changes in business practices resulting from legislative and regulatory developments or direction from our Conservator.

Additional draws, which will increase the already substantial liquidation preference of our senior preferred stock and decrease the amount of Treasury's remaining commitment under the Purchase Agreement, may add to the uncertainty regarding our long-term financial sustainability.

FHFA controls our business activities. The terms of the Purchase Agreement and the senior preferred stock significantly limit our business activities. We may be required to take actions that reduce our profitability, are difficult to implement, or expose us to additional risk.

We are under the control of FHFA, as our Conservator, and are not managed to maximize stockholder returns. FHFA determines our strategic direction. We face a variety of different, and sometimes competing, business objectives and FHFA-mandated activities (e.g., the initiatives we are pursuing under the Conservatorship Scorecards). It may be difficult for us to devote sufficient resources and management attention to these multiple priorities. Some of the activities FHFA has required us to undertake are costly and difficult to implement, such as building the common securitization platform.

FHFA has required us to make changes to our business that have adversely affected our financial results. FHFA could require us to make additional changes at any time. For example, FHFA may require us to undertake activities that:

- Reduce our profitability;
- Expose us to additional credit, market, funding, operational, and other risks; or
- Provide additional support for the mortgage market to serve our public mission, but adversely affect our financial results.

From time to time, FHFA and Treasury have prevented us from engaging in business activities or transactions that we believe would be profitable, and they may do so again in the future. For example, FHFA could limit the amount of securities we could sell or further limit the size of our mortgage-related investments portfolio.
The Purchase Agreement and the terms of the senior preferred stock also place significant restrictions on our ability to manage our business, including limiting:

- The amount of indebtedness we may incur;
- The size of our mortgage-related investments portfolio; and
- Our ability to pay dividends, transfer certain assets, raise capital, and pay down the liquidation preference of the senior preferred stock.

The Purchase Agreement prohibits us from taking a variety of actions without Treasury's consent. Treasury has the right to withhold its consent for any reason. The warrant held by Treasury, the restrictions on our business under the Purchase Agreement, and the senior status and net worth dividend provisions of the senior preferred stock could adversely affect our ability to attract capital from the private sector in the future, should we be in a position to do so.
If FHFA places us into receivership, our assets would be liquidated. The liquidation proceeds may not be sufficient to pay claims outstanding against Freddie Mac, repay the liquidation preference of our preferred stock, or make any distribution to our common stockholders.
We can be put into receivership at the discretion of the Director of FHFA at any time for a number of reasons set forth in the GSE Act. In addition, FHFA could be required to place us into receivership if Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth. Treasury might not be able to provide the requested funding if, for example, the U.S. government were not fully operational because Congress had failed to approve funding or the government had reached its borrowing limit. For more information, see "MD&A - Regulation and Supervision - Federal Housing Finance Agency - Receivership."
Being placed into receivership would terminate the conservatorship. The purpose of receivership is to liquidate our assets and resolve claims against us. The appointment of FHFA as our receiver would terminate all rights and claims that our stockholders and creditors may have against our assets or under our Charter arising as a result of their status as stockholders or creditors, other than the potential ability to be paid upon our liquidation. Bills considered by Congress in 2014 and 2015 provided for Freddie Mac to eventually be placed into receivership.
If our assets were liquidated, the liquidation proceeds may not be sufficient to pay the secured and unsecured claims against us, repay the liquidation preference of any series of our preferred stock, or make any distribution to our common stockholders. If we are placed into receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-related securities, such holders could become unsecured creditors with respect to claims made under our guarantee.
Proceeds would be available to repay the liquidation preference of other series of preferred stock only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock. Finally, only after the liquidation preference of all series of preferred stock is repaid would any proceeds be available for distribution to the holders of our common stock.

CREDIT RISKS

We are subject to mortgage credit risks, including mortgage credit risk relating to off-balance sheet arrangements; credit costs related to these risks could adversely affect our financial results.

Mortgage credit risk is the risk that a borrower will fail to make timely payments on a loan we own or guarantee. This exposes us to the risk of credit losses and credit-related expenses, which could adversely affect our financial results. We are primarily exposed to mortgage credit risk with respect to the single-family and multifamily loans and securities that we own or guarantee. We are also exposed to mortgage credit risk with respect to securities and guarantee arrangements that are not reflected as assets on our consolidated balance sheets. These relate primarily to K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees.

We continue to have a significant number of loans in our single-family credit guarantee portfolio with certain characteristics, such as Alt-A loans, interest-only loans, option ARM loans, loans with original LTV ratios greater than 90%, and loans to borrowers with credit scores less than 620 at the time of origination, that expose us to greater credit risk than other types of loans. See "MD&A - Risk Management - Credit Risk - Single-Family Mortgage Credit Risk - Monitoring Loan Performance and Characteristics for the Single-family Credit Guarantee Portfolio and Individual Sellers and Servicers."

Our efforts to increase access to single-family mortgage credit, including our expanded affordable housing program, may expose us to increased mortgage credit risk.

Our new credit risk transfer transactions may not be available to us in adverse economic conditions or may provide us with less protection than we expect. These transactions may also adversely affect our profitability.

We are increasingly using new credit risk transfer transactions to mitigate some of our potential credit losses. Our ability to use certain types of credit risk transfer transactions (and the cost to us of doing so) could change rapidly, depending on market conditions. In particular, it is possible that there will not be sufficient investor demand for certain of our credit risk transfer transactions during a housing downturn. Some of our credit risk transfer transactions are very new, and it is uncertain if there will be adequate demand for them over the long term. It is also uncertain how these transactions will ultimately perform under adverse market conditions, and it is possible that, under such conditions, they will provide us with less protection than we expect. It is also possible that the costs we incur on our credit risk transfer transactions could adversely affect the profitability of the loans in our Core single-family book that are covered by these transactions. Some of the new transactions are complex, which may increase our exposure to operational risk. There could be a significant difference in time between when we recognize an expense in earnings and when we recognize the related recovery in earnings, and this lag could adversely affect our financial results in the earlier period. For more information regarding these transactions, see Note 4.

We face significant risks related to our delegated underwriting process for single-family loans, including risks related to data accuracy and mortgage fraud. Recent changes to the process could increase our risks.

We delegate underwriting for the single-family loans we purchase or securitize to our sellers. Our

contracts with sellers describe mortgage eligibility and underwriting standards, and the sellers represent and warrant to us that the loans they deliver to us meet these standards. We do not independently verify most of the information provided to us before we purchase or securitize a loan. This exposes us to the risk that one or more of the parties involved in a transaction (such as the borrower, seller, broker, appraiser, title agent, loan officer, or lender) misrepresented the facts about the underlying property, borrower, or loan, or engaged in fraud.

We review a sample of these loans after we purchase them to determine if they are in compliance with our contractual standards. However, our review may not detect any misrepresentations by the parties involved in the transaction, deter loan fraud, or reduce our exposure to these risks.

In recent years, at the direction of FHFA, we significantly revised our representation and warranty framework (including changes to remedies for certain defects) to relieve sellers of certain repurchase obligations in specific cases. As a result, we may face greater exposure to credit and other losses because our ability to seek recovery or repurchase from the seller under this revised framework is more limited. Under the revised framework, it is critical that we identify breaches of representations and warranties early in the life of the loan. We are enhancing our tools and processes designed to do this. This change in practice may present operational and systems challenges. Once fully implemented, there is a risk that the enhanced tools and processes will not enable us to identify all breaches in a timely manner. For more information, see “MD&A - Risk Management - Credit Risk - Single-Family Mortgage Credit Risk - Maintaining policies and procedures for new business activity, including prudent underwriting standards.”

We are exposed to significant credit risk related to loans with lower credit quality that back the non-agency mortgage-related securities we hold in our mortgage-related investments portfolio.

Our investments in non-agency mortgage-related securities include securities that are backed by subprime, Alt-A, option ARM, and manufactured housing loans, and home equity lines of credit. The credit performance of these loans remains weak. Over time, we will likely add additional securities to the population of non-agency mortgage-related securities that we intend to sell. As we do so, we will be required to immediately recognize any unrealized losses on such securities in earnings. Our net worth has at times been adversely affected by declines in the fair value of these securities. We may experience additional fair value declines in the future due to a number of factors, such as increased default rates, and loss severities on the loans underlying these securities. The quality of the servicing performed on the underlying loans can significantly affect the timing and amount of losses we recognize on these securities. We also have exposure to loss on these securities as a result of:

- Our limited ability to influence servicing performance, including the volume and type of loan modifications;
- The lack of transparency in the market for the non-agency mortgage-related securities we hold. Information disclosed by the trustees of the trusts that issued the securities is often insufficient for us to adequately analyze the servicers’ decisions and how these decisions affect the cash flows on the securities;
- Concentration of loan servicing among several non-depository financial institutions. These servicers may not have the same financial strength, or operational capacity, or be subject to the same level of regulatory oversight, as depository servicers; and
- Inadequate protection from credit enhancements on these securities.

For more information regarding these risks, see “MD&A - Risk Management - Credit Risk - Mortgage-Related Securities Credit Risk,” "Single-Family Mortgage Credit Risk," and "Institutional Credit Risk - Other Counterparties - Mortgage related-security issuers and servicers."

Declines in U.S. home prices or other adverse changes in the U.S. housing market could negatively impact our business and financial results.

Our financial results and business volumes can be negatively affected by declines in home prices and other adverse changes in the housing market. This could:

- Increase our losses on dispositions of REO properties;
- Cause us to incorrectly hedge prepayment risk;
- Reduce our actual return on new single-family guarantee business, as actual default rates could be higher than we expected when we issued the guarantee;
- Result in declines in net worth due to fair value declines on our investments in non-agency mortgage-related securities; or
- Negatively affect loan pricing, which could cause us to change our disposition strategies for our single-family unsecuritized loans.

For more information regarding these risks, see “MD&A - Risk Management - Credit Risk - Mortgage-Related Securities Credit Risk.”

Our loan purchases and guarantee issuances are closely tied to the rate of growth in total outstanding U.S. residential mortgage loan debt, the size of the U.S. residential mortgage market, and the amount of new mortgage loan originations. Total residential mortgage loan debt increased approximately 0.7% in the first nine months of 2015 (the most recent data available) and less than 0.1% in 2014.

The proportion of our refinance loan purchases to total loan purchases could decrease if mortgage interest rates increase. This could increase our exposure to mortgage credit risk, as refinance loans (particularly those that do not involve a "cash-out") generally present less credit risk than purchase loans. Some of our seller/servicer counterparties are highly dependent on refinance loan volumes. A decrease in refinance loan volumes could adversely affect these counterparties, which could increase our exposure to institutional credit risk.

While the multifamily market has experienced strong rent growth and occupancy trends in the past several years, these trends are not likely to continue at their current pace. New supply of multifamily housing has been increasing in recent periods and could potentially outpace demand, which could result in excess supply and rising vacancy rates. Any softening of multifamily markets could cause delinquencies and credit losses relating to our multifamily activities to increase beyond our current expectations.

We are exposed to institutional credit risk with respect to our business counterparties. Our financial results may be adversely affected if one or more of our counterparties fail to meet their obligations to us.

We depend on our institutional counterparties to provide services that are critical to our business. We face the risk that one or more of our institutional counterparties may fail to meet their contractual obligations to us. Our important institutional counterparties include seller/servicers, mortgage and bond insurers, insurers and reinsurers in ACIS transactions, and counterparties to derivatives and short-term lending and

other funding transactions (i.e., cash and other investments transactions).
Many of our major counterparties provide several types of services to us. The concentration of our exposure to our counterparties remains high, and we continue to face challenges in reducing our risk concentrations with counterparties. Efforts we take to reduce exposure to financially weak counterparties could concentrate our exposure to other counterparties, and increase our costs and reduce our revenue. In recent years, challenging market conditions have, at times, adversely affected the liquidity and financial condition of our counterparties, and some of our major counterparties have failed. Similar events may occur in future periods. Many of our counterparties are subject to increasingly complex regulatory requirements and oversight, which place additional stress on their resources and may affect their ability or willingness to do business with us.

Credit risk related to loan seller/servicers

We are exposed to credit risks from the seller/servicers of our single-family loans, as described below.

- A decline in servicing performance - A decline in a servicer's performance, such as delayed foreclosures or missed opportunities for loan modifications, could significantly affect our ability to mitigate credit losses and could affect the overall credit performance of our single-family credit guarantee portfolio. The large volume of seriously delinquent loans and the complexity of the servicing function are significant factors contributing to the risk of a decline in performance by servicers. We could be adversely affected if our servicers lack appropriate controls, experience a failure in their controls, or experience a disruption in their ability to service loans, including as a result of legal or regulatory actions or ratings downgrades. We are also exposed to fraud by third parties in the loan servicing function, particularly with respect to sales of REO properties, short sales, and other dispositions of non-performing assets.

We could attempt to mitigate our exposure to a poorly performing servicer by terminating its right to service; however, we may not be able to find successor servicers who have the capacity to service the affected loans and who are also willing to assume the representations and warranties of the terminated servicer. Terminating a large servicer may not be feasible because of the operational and capacity challenges related to transfers of large servicing portfolios. If we replace a servicer, we would likely incur costs and potential increases in servicing fees.

- A failure by seller/servicers to fulfill their obligations to repurchase loans or indemnify us as a result of breaches of representations and warranties - While we may have the contractual right to require a seller or servicer to repurchase loans from us, it may be difficult, expensive, and time-consuming to enforce such repurchase obligations. We could enter into settlements to resolve repurchase obligations; however, the amounts we receive under any such settlements may be less than the losses we ultimately incur on the underlying loans.

Under our revised representation and warranty framework, as directed by FHFA, we are required in some cases to utilize an alternative remedy, such as indemnification, in lieu of repurchase. The amount we recover under an alternative remedy may be less than the amount we could have recovered in a repurchase.

- Increased exposure to non-depository and smaller financial institutions - Over the last several years, we have acquired a greater portion of our single-family business volume from non-depository and smaller financial institutions. In addition, a large and increasing volume of our single-family loans are

serviced by non-depository financial institutions. These non-depository and smaller financial institutions may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as our large single-family loan seller and servicer counterparties (which are depository institutions). As a result, we face increased risk that these counterparties could fail to perform their obligations to us. In particular, non-depository servicers rapidly grew their servicing portfolios in the last several years. This appears to have resulted in operational strains that have subjected these servicers to regulatory scrutiny. This rapid growth could expose us to increased risks if any operational strain adversely affects these servicers' servicing performance or their financial strength. In addition, if these servicers reduce their servicing portfolios, there may be a constraint in overall servicing capacity.

Our seller/servicers also have a significant role in servicing loans in our multifamily mortgage portfolio. We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause a decline in their servicing performance.

For more information, see "MD&A - Risk Management - Credit Risk - Institutional Credit Risk - Sellers and Servicers."

Credit risk related to counterparties to derivatives, short-term lending and other transactions

We have significant exposure to institutions in the financial services industry relating to derivatives, funding, short-term lending, securities and other transactions (e.g., cash and other investments transactions). These transactions are critical to our business, including our ability to:

- Manage interest rate and other risks related to our investments in mortgage-related assets;
- Fund our business operations; and
- Service our customers.

We face the risk of operational failure of the clearing members, exchanges, clearinghouses, or other financial intermediaries we use to facilitate derivatives, short-term lending and other transactions. If a clearing member or clearinghouse were to fail, we could lose some or all of the collateral or margin posted with the clearing member or clearinghouse.

We are a clearing member of the clearinghouse through which we execute mortgage-related securities transactions; as a result, we could be subject to losses because we are required to participate in the coverage of losses incurred by other clearing members if they fail to meet their obligations to the clearinghouse.

If our counterparties to short-term lending transactions fail, we are exposed to losses to the extent the transaction is unsecured or the collateral posted to us is insufficient.

For more information, see "MD&A - Risk Management - Credit Risk - Institutional Credit Risk - Other Counterparties - Cash and Other Investments Counterparties" and "- Derivative Counterparties."

Credit risk related to mortgage and bond insurers, and insurers and reinsurers in ACIS transactions

It is unlikely that we will receive full payment of our claims from several of the mortgage insurers of our single-family loans and bond insurers of certain of our non-agency mortgage-related securities, as these insurers are insolvent or are paying only a portion of our claims under our mortgage and bond insurance policies. For more information, see Note 13.

If a mortgage insurer fails to meet its obligations to reimburse us for claims, our credit losses could increase. In addition, if a regulator determines that a mortgage insurer lacks sufficient capital to pay all claims when due, the regulator could take action that might affect the timing and amount of claim payments made to us. We face similar risks with respect to the insurers and reinsurers in our ACIS credit risk transfer transactions.
We cannot differentiate pricing based on the strength of a mortgage insurer or revoke a mortgage insurer's status as an eligible insurer without FHFA approval. Further, we do not select the insurance provider on a specific loan, since the selection is made by the lender at the time the loan is originated. We continue to acquire new loans with mortgage insurance from the mortgage insurers that have credit ratings below investment grade.
If a bond insurer were to become insolvent, it is likely that we would not fully collect our claims from the insurer and that any such claims payments could be delayed significantly. This would affect our ability to recover certain unrealized losses on our investments in non-agency mortgage-related securities. We evaluate the expected recovery from bond insurance policies as part of our impairment analysis for our investments in securities. If a bond insurer is not expected to meet its obligations, we could recognize additional impairment of those securities.
For more information, see “MD&A - Risk Management - Credit Risk - Institutional Credit Risk - Mortgage and Bond Insurers.”
Our loss mitigation activities may be costly and may adversely affect our financial results.
Our loss mitigation strategies (including HAMP and HARP) may not be successful. The costs we incur related to loan modifications and other loss mitigation activities have been, and could continue to be, significant. For example, we bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee, as well as all applicable servicer incentive fees for our mortgage modifications.
We could be required or elect to make changes to our loss mitigation activities that could make these activities more costly to us. For example, we could be required to use principal forgiveness to reduce payments for borrowers and to bear some or all of the costs of such reductions.
Loan modification initiatives, particularly any future focus on principal forgiveness on a widespread basis, could have the potential to change borrower behavior and loan underwriting. Principal reductions may create an incentive for borrowers who are current on their loans to become delinquent in order to receive a principal reduction. This incentive could significantly affect borrower attitudes toward homeownership, borrower commitment to making their loan payments, the values of residential mortgage assets, and the way in which we conduct business.
We have loans on trial period plans as required under certain loan modification programs. Some of these loans will fail to complete the trial period or fail to qualify for our other borrower assistance programs. For these loans, the trial period will have effectively delayed the foreclosure process and could increase our losses.
Many of our HAMP loans, which initially were set at a below-market interest rate, have provisions for the interest rates to increase gradually until they reach the market rate that was in effect at the time of the modification. The resulting increase in the borrowers' payments may increase the risk that these

borrowers will default.
The type of loss mitigation activities we pursue could affect prepayments on our PCs and REMICs, which could affect the value of these securities or the earnings from mortgage-related assets in our Investments segment mortgage investments portfolio. In addition, loss mitigation activities may adversely affect our ability to securitize, resecuritize and sell the loans subject to those activities (e.g., investors may not be willing to purchase PCs backed by modified single-family loans).
The effect of HARP and other refinance initiatives of the GSEs on prepayment expectations is difficult to estimate, and we could experience declines in the fair values of certain agency security investments and lower net interest yields over time on other mortgage-related investments. The difficulty in estimating the effect of prepayments could also adversely affect our ability to hedge our mortgage-related investments.
We have devoted significant resources to the MHA Program and other borrower assistance initiatives. The size and scope of these efforts may also limit our ability to pursue other business opportunities or corporate initiatives.
For more information on our loss mitigation activities, see “MD&A - Our Business Segments - Single-Family Guarantee - Loss Mitigation Activities” and “MD&A - Risk Management - Credit Risk - Single-Family Mortgage Credit Risk - Engaging in Loss Mitigation Activities.”
We have been, and will continue to be, adversely affected by delays and deficiencies in the single-family foreclosure process.
The average length of time for foreclosure of a Freddie Mac loan has significantly increased since 2008, particularly in states that require a judicial foreclosure process, and may further increase. Delays in the foreclosure process could:

- Cause our expenses to increase. For example, properties awaiting foreclosure could deteriorate until we acquire them, resulting in increased expenses to repair and maintain the properties;
- Adversely affect the values of, and our losses on, the non-agency mortgage-related securities we hold; and
- Adversely affect trends in home prices regionally or nationally, which could adversely affect our financial results.

It is possible that mortgage insurance claims could be reduced or denied if servicers do not follow proper procedures in addressing seriously delinquent borrowers, such as not completing foreclosures within required timelines.
We may experience further losses relating to our assets that could materially adversely affect our financial results, liquidity and net worth.
We may experience additional losses relating to our assets, including those that are currently AAA-rated, and the fair values of our assets may decline in the future. This could adversely affect our financial results, liquidity, and net worth. We may decide to pursue certain mortgage-related investments portfolio strategies that could result in the immediate recognition of losses, such as paying a premium to repurchase debt, increasing the amount of non-agency mortgage-related securities we intend to sell, or engaging in certain asset structuring activities that result in the write-off of premiums.

INTEREST RATE AND OTHER MARKET RISKS

Changes in interest rates could negatively affect the fair value of financial assets and liabilities, our results of operations and our net worth.

Our investment and credit guarantee activities in single family and multifamily mortgage assets expose us to interest rate and other market risks, including prepayment risk.

Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Interest rates can also fluctuate as a result of geopolitical events or changes in general economic conditions, including events or conditions that alter investor demand for Treasury or other fixed-income securities.

Changes in interest rates could adversely affect the cash flows and prepayment rate on assets that we own and related debt and derivatives. We incur costs in connection with our efforts to manage these risks. In addition, changes in interest-rates could adversely affect the prepayment rate on the loans that we guarantee.

Our financial results can be significantly affected by changes in interest rates and changes in yield curves, as certain of our assets and liabilities are recorded at fair value. Our interest rate risk management activities are designed to reduce our economic exposure to changes in interest rates to a low level as per our models. The accounting treatment for those assets and liabilities, including derivatives, however, creates volatility in our earnings when interest rates fluctuate as some assets and liabilities are measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. This volatility generally is not indicative of the underlying economics of our business.

When interest rates decrease, borrowers are more likely to prepay their loans by refinancing them at a lower rate. An increased likelihood of prepayment on the loans underlying our mortgage-related securities may adversely affect the value of these securities.

When interest rates increase:

- Our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower’s risk of default;
- Borrowers with higher risk adjustable-rate loans may have fewer opportunities to refinance into fixed-rate loans;
- A borrower's payment on additional debt obligations (such as home equity lines of credit and second liens) that have adjustable payment terms may increase, which in turn increases the risk that the borrower may default on a loan we own or guarantee; and
- Other-than-temporary impairments on our investments in non-agency mortgage-related securities could increase due to a reduction in the benefit expected from structural credit enhancements on these securities.

Changes in spreads could materially affect our results of operations and net worth.

Changes in market conditions, including changes in interest rates, liquidity, prepayment and/or default expectations, and the level of uncertainty in the market for a particular asset class, may cause fluctuations in spreads (also referred to as OAS). Our financial results and net worth can be significantly

affected by changes in spreads, especially results driven by financial instruments that are measured at fair value, since we have limited ability to mitigate exposure to changes in spreads. These instruments include trading securities, available-for-sale securities, loans held-for-sale, and loans and debt with the fair value option elected.

A widening of the spreads on a given asset is typically associated with a decline in the fair value of that asset, which may adversely affect our near-term financial results and net worth. While wider spreads may create favorable investment opportunities, our ability to take advantage of any such opportunities is limited due to various restrictions on our mortgage-related investments portfolio activities. See "MD&A - Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness."

A narrowing or tightening of the spreads on a given asset is typically associated with an increase in the fair value of that asset. Narrowing spreads may reduce the number of attractive investment opportunities in loans and mortgage-related securities, and could increase the cost of our activities to support the liquidity and price performance of our PCs. Consequently, a tightening of the spreads on our assets may adversely affect our future financial results and net worth.

OPERATIONAL RISKS

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

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

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial and economic loss, errors in our financial statements, disruption of our business, liability to customers, further legislative or regulatory intervention, or reputational damage. We have certain systems that require manual support and intervention, which may lead to heightened risk of system failures. Our business is highly dependent on our ability to process a large number of transactions on a daily basis and manage and analyze significant amounts of information, much of which is provided by third parties. The transactions we process are complex and are subject to various legal, accounting, and regulatory standards. The types of transactions we process and the standards relating to those transactions can change rapidly in response to external events, such as the implementation of government-mandated programs and changes in market conditions. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. Our systems may contain design flaws. The information provided by third parties may be incorrect, or we may fail to properly manage or analyze it. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives or improve existing business activities.

We also face increased operational risk due to the magnitude and complexity of the new initiatives we are undertaking, including our efforts to help build a new housing finance system, such as the development of the single (common) security and common securitization platform. Some of these initiatives require significant changes to our operational systems. In some cases, the changes must be implemented within a short period of time. The transition to the common securitization platform, which is currently scheduled to begin in late 2016, presents significant operational and technological challenges. Our legacy systems may also create increased operational risk for these new initiatives. Internal corporate reorganizations (e.g., relating to our implementation of an enhanced three-lines-of-defense risk management framework) may also increase our operational risk, particularly during the period of implementation.

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

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

For information on an operational risk issue relating to the PC master trust agreement, see "MD&A - Risk Management - Operational Risk."

The threat landscape in cyber security is changing rapidly and growing in sophistication. We may not be able to protect our systems with complete assurance or fully protect the confidentiality of our information from cyberattack and other unauthorized access, disclosure, and disruption.

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

We rely on third parties for certain important functions. Any failures by those vendors and service providers could disrupt our business operations or expose us to loss of confidential information or intellectual property.

At times, we outsource certain key functions to external parties, including some that are critical to financial reporting, our mortgage-related investment activity, and loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, perform them at an acceptable service level, or handle increased volumes, or if one of them experiences a disruption in its own business or technology from any cause, our business operations could be constrained, disrupted, or otherwise negatively affected. Our use of vendors also exposes us to the risk of losing intellectual property or confidential information and to other harm, including to our reputation. Our ability to monitor the activities or performance of vendors may be constrained, which may make it difficult for us to assess and manage the risks associated with these relationships.

We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes.

Models are inherently imperfect predictors of actual results. We use models to forecast significant factors in our businesses including, but not limited to, interest rates, house prices, and mortgage rates. We also use models to project borrower prepayment and default behavior over long periods of time. There is inherent uncertainty associated with model projections of economic variables and the downstream forecasts of prepayment and default behavior dependent on these variables.

Uncertainty and risks related to models may arise from a number of sources. First, we could fail to implement, operate, adjust, or use our models as intended. We may fail to code a model correctly, we could use incorrect data inputs, or model implementation software could malfunction. The complexity and interconnectivity of our models create additional risk regarding the accuracy of model output. We may not be able to deploy or update models in a timely manner. Second, the data we use to train or feed our models, much of which we receive from third-party data providers, may be inaccurate. Third, when market conditions change in unforeseen ways, our model projections may not accurately reflect these conditions. For example, models may not fully reflect the effect of certain government policy changes. In such cases, it is often necessary to make assumptions and judgments to accommodate the effect of scenarios that are not sufficiently well represented in the historical data. While we may adjust our models in response to new events, considerable residual uncertainty remains. Finally, we also use select third-party vendor models. While the use of such models may reduce our risk where no internal model is available, it exposes us to additional risk, as third parties typically do not provide us with proprietary information regarding their models. We have little control over the process by which vendor models are adjusted or changed. As a result, we may be unable to fully evaluate the risks associated with the use of such models.

We risk making poor business decisions in situations where we rely on models to provide key information. Our use of models could affect decisions concerning the purchase, sale and securitization of loans, the purchase and sale of securities, funding, the setting of management and guarantee fee prices, and the management of interest-rate, market, or credit risk. Our use of models also affects our quality-control sampling strategies for loans in our single-family credit guarantee portfolio and potential settlements with our counterparties. See “MD&A - Critical Accounting Policies and Estimates” and “Interest-Rate Risk and Other Market Risks” for more information on our use of models.

LIQUIDITY RISKS

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

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

- Market and other factors;
- Changes in U.S. government support for us;
- Reduced demand for our debt securities; and
- Competition for debt funding from other debt issuers

Market and Other Factors

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

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

Prolonged wide spreads on long-term debt could cause us to reduce our long-term debt issuances and further increase our reliance on short-term and callable debt issuances. This increased reliance could increase the risk that we may be unable to refinance our debt when it becomes due and result in a greater use of derivatives. This greater use of derivatives could increase the volatility of our comprehensive income.

Our mortgage-related investments portfolio has contracted significantly since we entered into conservatorship, but continues to contain assets that are less liquid than agency securities. Our ability to use these less liquid assets as a significant source of liquidity (for example, through sales or use as collateral in secured lending transactions) is limited.

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

Changes in U.S. Government Support

Treasury supports us through the Purchase Agreement and Treasury's ability to purchase up to $2.25 billion of our obligations under its permanent statutory authority. Unlike certain of our competitors, we do not have access to the Federal Reserve's discount window or emergency credit facilities. Changes or perceived changes in the U.S. government's support for us could have a severe negative effect on our access to the unsecured debt markets and our debt funding costs. Our access to the unsecured debt markets and the costs of our debt funding could be adversely affected by a number of factors relating to U.S. government support, including:

- Uncertainty about the future of the GSEs;
- If debt investors become concerned that the risk of us being placed in receivership is increasing; and
- Future draws that significantly reduce the amount of available funding remaining under the Purchase Agreement.

For more information, see "MD&A - Liquidity and Capital Resources - Capital Resources."

Demand for Debt Funding

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

The market for our debt securities may become less liquid as the size of our mortgage-related investments portfolio declines, as we will be issuing fewer debt securities. This could lead to a decrease in demand for our debt securities and an increase in our funding costs.

Competition for Debt Funding

We compete for debt funding with Fannie Mae, the FHLBs, and other institutions. Competition for debt funding from these entities can vary with changes in economic, financial market, and regulatory environments. Increased competition for debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. See "MD&A - Our Business Segments - Investments" for a description of our debt issuance programs. Our funding costs and liquidity contingency plans may also be affected by changes in the amount of, and demand for, debt issued by Treasury.

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.

Our credit ratings are important to our liquidity. We currently receive ratings for our unsecured debt from three nationally recognized statistical rating organizations (S&P, Moody's, and Fitch). These ratings are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings of the U.S. government. Any downgrade in the credit ratings of the U.S. government would be expected to be followed or accompanied by a downgrade in our credit ratings. In addition to a downgrade in the credit ratings of or outlook on the U.S. government, a number of other events could adversely affect our debt credit ratings, including actions by governmental entities, changes in government support for us, future GAAP losses, and additional draws under the Purchase Agreement. Any such downgrades could lead to major disruptions in the mortgage and financial markets and to our business due to lower liquidity, higher borrowing costs, lower asset values, and higher credit losses, and could cause us to experience net losses and net worth deficits. A downgrade in our credit ratings could require us to post additional collateral to certain of our derivative counterparties.

For more information, see "MD&A - Liquidity and Capital Resources - Liquidity Profile - Credit Ratings."

LEGAL AND REGULATORY RISKS

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

We operate in a highly regulated industry and are subject to heightened supervision from FHFA, as our Conservator. Our compliance systems and programs may not be adequate to ensure that we are in compliance with all legal and other requirements. We could incur fines or other negative consequences for inadvertent violations.

Our business may be directly adversely affected by future legislative and regulatory actions at the federal, state, and local levels, including actions by FHFA as Conservator. Judicial actions at the federal, state, or local level could also adversely affect us. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional legal, compliance and other costs on us, limiting our business activities and diverting management attention or other resources.

For example, our ability to recruit and retain executives and other employees with the necessary skills to conduct our business may be adversely affected by legislative or regulatory actions (e.g., significant restrictions on compensation). We could also be negatively affected by legislative, regulatory or judicial action that:

- Changes the foreclosure process of any individual state;
- Limits or otherwise adversely affects the rights of a holder of a first lien on a mortgage (such as through granting priority rights in foreclosure proceedings for homeowner associations);
- Expands the responsibilities of (and costs to) servicers for maintaining vacant properties prior to foreclosure;
- Permits or requires principal reductions, such as allowing local governments to use eminent domain to seize mortgage loans and forgive principal on the loans; or
- Prevents us from using the MERS System or disrupts foreclosures of loans registered in the MERS System.

Our business could also be adversely affected by any modification, reduction, or repeal of the federal income tax deductibility of loan interest payments.

The Dodd-Frank Act significantly changed the regulation of loans and the financial services industry and could continue to affect us in substantial ways. For example, the Dodd-Frank Act and related regulatory changes could cause or require us to make further changes to our business practices, such as practices related to mortgage underwriting and servicing.

Legislation or regulatory actions could indirectly adversely affect us to the extent they affect the activities of banks, savings institutions, insurance companies, derivative counterparties, clearinghouses, securities dealers, and other regulated entities that constitute a significant portion of our customers or counterparties, or to the extent that they modify industry practices. Legislative or regulatory provisions that remove incentives for these entities to purchase our securities or enter into derivatives or other transactions with us could have a material adverse effect on our business and financial results. For example, changes in business practices resulting from the Dodd-Frank Act and related regulatory changes could have a negative effect on the volume of loan originations or could modify or remove incentives for financial institutions to sell loans to us, either of which could adversely affect the number of

loans available for us to purchase or guarantee.
The Basel III standards could affect demand for our debt and mortgage-related securities.
U.S. banking regulators have substantially revised the capital and liquidity requirements applicable to banking organizations, based on the Basel III standards developed by the Basel Committee on Banking Supervision. Phase-in of the new bank capital and liquidity requirements will take several years. The new requirements do not directly apply to us and there is significant uncertainty about the extent to which implementation of the new requirements by banking organizations may affect us. For example, the emerging regulatory framework could decrease demand for our debt and mortgage-related securities and/or affect competition in the market for loan originations and servicing, with possible adverse consequences for our business and financial results. In addition, the phase-in of enhanced capital and liquidity requirements for banking organizations may reduce the level of participation of such organizations in (and thus the liquidity of) trading markets for various types of financial instruments, including asset-backed securities. In turn, this could decrease the liquidity of the markets for our debt and mortgage-related securities, which could increase our funding and other costs and adversely affect our business.
In January 2016, the Basel Committee on Banking Supervision issued revised standards for minimum capital requirements for market risk. These standards are also applicable to banking organizations. There is significant uncertainty as to when, and the extent to which, U.S. banking regulators will adopt the new market risk standards, and the effect any such standards may have on us.
We may make certain changes to our business in an attempt to meet our housing goals and subgoals, which may cause us to forgo other more profitable opportunities.
We may make adjustments to our loan sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including relaxing some of our underwriting standards and the expanded use of targeted initiatives to reach underserved populations. For example, we may purchase loans that offer lower expected returns on our investment and potentially increase our exposure to credit losses. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable.
FHFA has not yet published a final rule with respect to our duty to serve underserved markets. However, it is possible that we could also make changes to our business in the future in response to this duty that could adversely affect our profitability. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that we could have met the goals or satisfied the requirements, we may become subject to a housing plan that could require us to take additional steps that could potentially adversely affect our profitability. Due to our failure to meet two single-family housing goals for 2014, FHFA required us to submit a housing plan addressing how we intend to achieve the missed goals in 2016 and 2017. We submitted a housing plan for FHFA approval on February 1, 2016. If we fail to comply with the plan, FHFA could take additional action against us.
We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.
We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in governmental investigations and regulatory proceedings and IRS examinations. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. We may be required to establish

reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, proceedings, investigations or examinations. Any legal proceeding, governmental investigation, or IRS examination issue, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, the costs (including settlement costs) related to these legal proceedings and governmental investigations and examinations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. These various matters could divert management’s attention and other resources from the needs of the business. In addition, a number of lawsuits have been filed against the U.S. government relating to conservatorship and the Purchase Agreement that could adversely affect us. See “Legal Proceedings” and Note 15 for information about these various pending legal proceedings.

OTHER RISKS

Our investment activity is significantly limited under the Purchase Agreement and by FHFA, which will reduce our earnings from investment activities over time and result in greater reliance on our guarantee activities to generate revenue.

Declines in the size of our mortgage-related investments portfolio, as required by the Purchase Agreement and FHFA, will reduce our earnings over the long term. We are also subject to other limitations on our investment activity, including significant constraints on our ability to purchase or sell mortgage assets. These limitations will reduce the earnings capacity of our mortgage-related investments portfolio. We can provide no assurance that the cap on our mortgage-related investments portfolio will not, over time, force us to sell mortgage assets at unattractive prices or that our current strategies will not have an adverse impact on our business or financial results. For more information, see "MD&A - Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness."

Due to the reduced earnings capacity of our mortgage-related investments portfolio, we will have to place greater emphasis on our guarantee activities to generate revenue. However, our ability to generate revenue through guarantee activities may be limited for a number of reasons. We may be required to adopt business practices that help serve our public mission and other non-financial objectives, but that may negatively affect our future financial results. We must obtain FHFA's approval to implement across-the-board increases in our guarantee fees, and there can be no assurance FHFA will approve any such increase requests in the future. Congress or FHFA may require us to set aside or otherwise pay monies to fund third party initiatives, such as the requirement that we allocate amounts for certain housing funds. The combination of the restrictions on our business activities and our potential inability to generate sufficient revenue through our guarantee activities to offset the effects of those restrictions may have an adverse effect on our results of operations and financial condition.

The loss of business from a key customer or a decrease in the availability of mortgage insurance could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of loans. We purchase a significant percentage of our single-family loans from several large loan originators. Similarly, we acquire a significant portion of our multifamily loans from several large lenders. For more information, see Note 13.

We enter into loan purchase commitments with many of our single-family customers that are typically less than one year in duration. Lenders may fail to deliver loans to us in accordance with their commitments. The loss of business from any of our major lenders could adversely affect our market share and our revenues.

Our charter requires that single-family loans with LTV ratios above 80% at the time of purchase be covered by mortgage insurance or other credit enhancements. If the availability of mortgage insurance for loans with LTV ratios above 80% is reduced, we may be restricted in our ability to purchase or securitize such loans. This could reduce our overall volume of new business.

Competition from banking and non-banking institutions (including Fannie Mae, Ginnie Mae, and FHA/VA) may harm our business. FHFA's actions as Conservator of both companies could affect competition between us and Fannie Mae. Competition in the secondary mortgage market may make it more difficult for us to purchase mortgage loans. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively affect our financial results. Increased competition from Fannie Mae, Ginnie Mae, FHA/VA, and new entrants may alter our product mix, lower our volumes, and reduce our revenues on new business.

We also compete with other financial institutions that retain or securitize loans, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. In recent years, FHFA took a number of actions designed to encourage these other financial institutions to increase their activities in the mortgage market (e.g., increasing our guarantee fees in 2012), and could take additional actions in the future. Because of these actions and because our base management and guarantee fees do not vary based on LTV ratios or credit scores, there is a risk that financial institutions may retain loans with better credit characteristics rather than sell them to us, or otherwise seek to structure financial transactions that result in our loan purchases having a higher proportion of loans with lower credit scores and higher LTV ratios. While we compensate ourselves for higher levels of credit risk through charging upfront delivery fees, sellers' retention of loans with better credit characteristics could result in us having lower overall purchase volumes, revenues, and returns (as a result of us having loans with a more adverse credit risk profile).

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

We have faced increased competition in the multifamily market in recent years from life insurers, banks, CMBS conduits, and other market participants as multifamily market fundamentals have improved. FHFA may take actions that could encourage further competition.

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

The price performance of our PCs relative to comparable Fannie Mae securities is one of Freddie Mac's more significant risks and competitive issues, with both short- and long-term implications. Our PCs are an integral part of our loan purchase program. Our competitiveness in purchasing single-family loans from our sellers and the volume and/or profitability of our new single-family guarantee business is directly affected by the price performance of our PCs relative to comparable Fannie Mae securities.

Freddie Mac fixed-rate PCs provide for faster scheduled monthly remittance of loan principal and interest payments to investors than Fannie Mae fixed-rate securities. Despite the faster remittance cycle of our PCs, our PCs have typically traded at a discount relative to comparable Fannie Mae securities. This difference in relative pricing creates an economic incentive for sellers to conduct a disproportionate share of their single-family business with Fannie Mae.

There may not be a liquid market for our PCs, which could adversely affect the price performance of PCs and our single-family market share. A significant reduction in our market share, and thus in the volume of loans that we securitize, or a reduction in the trading volume of our PCs, could further reduce the liquidity of our PCs. While we may employ various strategies to support the liquidity and price performance of our PCs, and may consider additional strategies, those strategies may fail or adversely affect our business. We may cease such activities at any time, or FHFA could require us to do so, which could adversely affect the liquidity and price performance of our PCs.
The liquidity-related price differences between our PCs and comparable Fannie Mae securities could be influenced by factors that are largely outside of our control. For example, the level of the Federal Reserve's purchases of agency mortgage-related securities could affect the demand for and values of our PCs. Therefore, any strategies we employ to reduce the liquidity-related price differences may not reduce or eliminate these price differences over the long-term.
In certain circumstances, we compensate sellers for the difference in price between our PCs and comparable Fannie Mae securities by reducing our guarantee fees, which adversely affects the profitability of our single-family guarantee business. We also incur costs in connection with our efforts to support the liquidity and price performance of our PCs, including by engaging in transactions that yield less than our target rate of return. For more information, see "MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Products and Activities" and "- Investments Segment - Business Overview - Products and Activities."
In accordance with FHFA's 2014 Strategic Plan and the Conservatorship Scorecards, we are developing a single (common) security, which is designed to reduce the price performance disparities between the mortgage-related securities of Freddie Mac and Fannie Mae. This initiative is complex and costly, and may require us to align our business processes more closely with those of Fannie Mae. There can be no assurance that a single (common) security will reduce the trading value disparities.
Our current Multifamily business model is highly dependent on our ability to finance purchased multifamily loans through securitization into K Certificates. A significant decrease in demand for K Certificates could have an adverse impact on the profitability of the Multifamily business to the extent that our holding period for the loans increases and we are exposed to credit, spread and other market risks for a longer period of time. We employ various strategies to support the liquidity of our K Certificates, and may consider additional strategies. From time to time, we purchase and sell guaranteed K Certificates and related unguaranteed securities associated with K Certificates as well as our other securitization products through our mortgage-related investments portfolio.
There may not be an active, liquid trading market for our equity securities.
Our common stock and the publicly traded classes of our preferred stock trade exclusively on the OTCQB Marketplace. Trading volumes on the OTCQB Marketplace can fluctuate significantly, which could make it difficult for investors to execute transactions in our securities and could cause declines or volatility in the prices of our equity securities.

Legal Proceedings

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See Note 15 for more information regarding our involvement as a party to various legal proceedings. We discuss below certain litigation against the U.S. government concerning conservatorship and the Purchase Agreement.

Over the last several years, a number of lawsuits have been filed against the U.S. government and, in some cases, the Secretary of the Treasury and the Director of FHFA. These lawsuits challenge certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. Several of the lawsuits seek to invalidate the net worth sweep dividend provisions of the senior preferred stock, which were implemented pursuant to the August 2012 amendment to the Purchase Agreement. A number of cases have been dismissed. Cases are currently pending in the U.S. Court of Federal Claims, the U.S. District Court for the Eastern District of Kentucky, the U.S. District Court for the Northern District of Iowa, and the U.S. District Court for the Northern District of Illinois. In addition, plaintiffs are appealing a September 2014 order by the U.S. District Court for the District of Columbia to dismiss such parties' cases in that Court. It is possible that additional similar lawsuits will be filed in the future.

Freddie Mac is not a party to any of these lawsuits. However, a number of other lawsuits have been filed against Freddie Mac concerning the August 2012 amendment to the Purchase Agreement. See Note 15 for information on the lawsuits filed against Freddie Mac. Pershing Square Capital Management, L.P. ("Pershing") is a plaintiff in one of the lawsuits filed against Freddie Mac. Pershing has filed reports with the SEC, most recently in March 2014, indicating that it beneficially owned more than 5% of our common stock. We do not know Pershing's current beneficial ownership of our common stock. For more information, see "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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

Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock, par value $0.00 per share, trades on the OTCQB Marketplace, operated by the OTC Markets Group Inc., under the ticker symbol “FMCC.” As of February 4, 2016, there were 650,045,962 shares of our common stock outstanding.

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

	High	Low
2015 Quarter Ended		
December 31	$2.67	$1.57
September 30	2.61	1.90
June 30	2.84	2.18
March 31	3.32	2.04
2014 Quarter Ended		
December 31	$2.50	$1.44
September 30	4.58	2.56
June 30	4.78	3.63
March 31	6.00	2.63

HOLDERS

As of February 4, 2016, we had 1,803 common stockholders of record.

DIVIDENDS AND DIVIDEND RESTRICTIONS

We did not pay any cash dividends on our common stock during 2015 or 2014. Our payment of dividends is subject to the following restrictions:

- Restrictions Relating to the Conservatorship - The Conservator has prohibited us from paying any dividends on our common stock or on any series of our preferred stock (other than the senior preferred stock). FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the Director of FHFA.
- Restrictions Under the Purchase Agreement - The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on Freddie Mac equity securities (other than

Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

with respect to the senior preferred stock or warrant) without the prior written consent of Treasury.

- Restrictions Under the GSE Act - Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. However, our capital requirements have been suspended during conservatorship.
- Restrictions Under our Charter - Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.
- Restrictions Relating to Subordinated Debt - During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either our core capital is below 125% of our critical capital requirement or our core capital is below our statutory minimum capital requirement, and the Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our Charter to purchase our debt obligations. FHFA has directed us to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.
- Restrictions Relating to Preferred Stock - Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of December 31, 2015. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is subject to the prior payment of dividends on the senior preferred stock. We paid dividends on the senior preferred stock during 2015 at the direction of the Conservator, as discussed in “MD&A - LIQUIDITY AND CAPITAL RESOURCES” and Note 10. We did not declare or pay dividends on any other series of preferred stock outstanding in 2015.

RECENT SALES OF UNREGISTERED SECURITIES

The securities we issue are “exempted securities” under the Securities Act of 1933. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under these plans to employees and members of our Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury’s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. No stock options were exercised during the three months ended December 31, 2015. See Note 10 for more information.

ISSUER PURCHASES OF EQUITY SECURITIES

We did not repurchase any of our common or preferred stock during 2015. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the

Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury's prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the certificate of designation of the senior preferred stock.

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company, N.A.
P.O. Box 30170
College Station, TX 77842
Telephone: 877-373-6374
https://www-us.computershare.com/investor

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Freddie Mac
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of equity, and of cash flows present fairly, in all material respects, the financial position of Freddie Mac, a stockholder-owned government sponsored enterprise, and its subsidiaries (the "Company") at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency (“FHFA”) that may have financial statement disclosure ramifications to be communicated to management of Freddie Mac existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management’s Report on Internal Control Over Financial Reporting, appearing under "Controls and Procedures." We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management’s report referred to above. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
As discussed in “Note 2: Conservatorship and Related Matters”, in September 2008, the Company was placed into conservatorship by the FHFA. The U.S. Department of Treasury (“Treasury”) has committed financial support to the Company and management continues to conduct business operations pursuant to

the delegated authorities from FHFA during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 18, 2016

FREDDIE MAC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(in millions, except share-related amounts)	2015	2014	2013
Interest income			
Mortgage loans	$62,226	$63,605	$64,883
Investments in securities	4,794	5,843	7,768
Other	70	32	51
Total interest income	67,090	69,480	72,702
Interest expense	(51,916)	(54,916)	(55,779)
Expense related to derivatives	(228)	(301)	(455)
Net interest income	14,946	14,263	16,468
Benefit (provision) for credit losses	2,665	(58)	2,465
Net interest income after benefit (provision) for credit losses	17,611	14,205	18,933
Non-interest income (loss)			
Gains (losses) on extinguishment of debt	(240)	(422)	446
Derivative gains (losses)	(2,696)	(8,291)	2,632
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(241)	(860)	(763)
Portion of other-than-temporary impairment recognized in AOCI	(51)	(78)	(747)
Net impairment of available-for-sale securities recognized in earnings	(292)	(938)	(1,510)
Other gains (losses) on investment securities recognized in earnings	508	1,494	301
Other income (loss)	(879)	8,044	6,650
Non-interest income (loss)	(3,599)	(113)	8,519
Non-interest expense			
Salaries and employee benefits	(975)	(914)	(833)
Professional services	(497)	(527)	(543)
Occupancy expense	(56)	(58)	(54)
Other administrative expense	(399)	(382)	(375)
Total administrative expense	(1,927)	(1,881)	(1,805)
Real estate owned operations (expense) income	(338)	(196)	140
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(967)	(775)	(533)
Other (expense) income	(1,506)	(238)	109
Non-interest expense	(4,738)	(3,090)	(2,089)
Income before income tax (expense) benefit	9,274	11,002	25,363
Income tax (expense) benefit	(2,898)	(3,312)	23,305
Net income	6,376	7,690	48,668
Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	(806)	1,584	2,406
Changes in unrealized gains (losses) related to cash flow hedge relationships	182	197	316
Changes in defined benefit plans	47	(45)	210
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(577)	1,736	2,932
Comprehensive income	$5,799	$9,426	$51,600
Net income	$6,376	$7,690	$48,668

Undistributed net worth sweep and senior preferred stock dividends	(6,399)	(10,026)	(52,199)
Net income (loss) attributable to common stockholders	$(23)	$(2,336)	$(3,531)
Net income (loss) per common share — basic and diluted	$(0.01)	$(0.72)	$(1.09)
Weighted average common shares outstanding (in millions) — basic and diluted	3,235	3,236	3,238

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

FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

(in millions, except share-related amounts)	At December 31, 2015	2014
Assets		
Cash and cash equivalents (Notes 3, 13)	$5,595	$10,928
Restricted cash and cash equivalents (Notes 3, 13)	14,533	8,535
Securities purchased under agreements to resell (Notes 3, 9)	63,644	51,903
Investments in securities, at fair value (Note 6)	114,215	136,987
Mortgage loans held-for-sale (Notes 3, 4) (includes $17,660 and $12,130 at fair value)	24,992	12,368
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $15,331 and $21,761)	1,729,201	1,688,212
Accrued interest receivable (Note 3)	6,074	6,034
Derivative assets, net (Notes 8, 9)	395	822
Real estate owned, net (Notes 3, 5)	1,725	2,558
Deferred tax assets, net (Note 11)	18,205	19,498
Other assets (Notes 3, 17)	7,471	7,694
Total assets	$1,986,050	$1,945,539
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$6,183	$6,325
Debt, net (Notes 3, 7) (includes $7,184 and $5,862 at fair value)	1,970,427	1,929,542
Derivative liabilities, net (Notes 8, 9)	1,254	1,963
Other liabilities (Notes 3, 17)	5,246	5,058
Total liabilities	1,983,110	1,942,888
Commitments and contingencies (Notes 3, 8, and 15)		
Equity (Note 10)		
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 650,045,962 shares and 650,043,899 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(80,773)	(81,639)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $778 and $839, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	1,740	2,546
Cash flow hedge relationships	(621)	(803)
Defined benefit plans	34	(13)
Total AOCI, net of taxes	1,153	1,730
Treasury stock, at cost, 75,817,924 shares and 75,819,987 shares	(3,885)	(3,885)
Total equity (See Note 10 for information on our dividend obligation to Treasury)	2,940	2,651
Total liabilities and equity	$1,986,050	$1,945,539

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

(in millions)	At December 31, 2015	2014
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-sale	$1,403	$—
Mortgage loans held-for-investment	1,625,184	1,558,094
All other assets	37,305	29,798
Total assets of consolidated VIEs	$1,663,892	$1,587,892
Liabilities: (Note 3)		
Debt, net	$1,556,121	$1,479,473
All other liabilities	4,769	4,703
Total liabilities of consolidated VIEs	$1,560,890	$1,484,176

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

FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY

(in millions)	Shares Outstanding			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
	Senior Preferred Stock	Preferred Stock	Common Stock								
Balance at December 31, 2012	1	464	650	$ 72,336	$ 14,109	$ —	$ 1	$ (70,796)	$ (2,938)	$ (3,885)	$ 8,827
Comprehensive income:											
Net income	—	—	—	—	—	—	—	48,668	—	—	48,668
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	2,932	—	2,932
Comprehensive income	—	—	—	—	—	—	—	48,668	2,932	—	51,600
Common stock issuances	—	—	—	—	—	—	(1)	—	—	—	(1)
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(47,591)	—	—	(47,591)
Ending balance at December 31, 2013	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (69,719)	$ (6)	$ (3,885)	$ 12,835
Balance at December 31, 2013	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (69,719)	$ (6)	$ (3,885)	$ 12,835
Comprehensive income:											
Net income	—	—	—	—	—	—	—	7,690	—	—	7,690
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	1,736	—	1,736
Comprehensive income	—	—	—	—	—	—	—	7,690	1,736	—	9,426
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(19,610)	—	—	(19,610)
	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (81,639)	$ 1,730	$ (3,885)	$ 2,651

Ending balance at December 31, 2014											
Balance at December 31, 2014	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (81,639)	$ 1,730	$ (3,885)	$ 2,651
Comprehensive income:											
Net income	—	—	—	—	—	—	—	6,376	—	—	6,376
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	(577)	—	(577)
Comprehensive income	—	—	—	—	—	—	—	6,376	(577)	—	5,799
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(5,510)	—	—	(5,510)
Ending balance at December 31, 2015	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (80,773)	$ 1,153	$ (3,885)	$ 2,940

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

FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(in millions)	2015	2014	2013
Cash flows from operating activities			
Net income	$6,376	$7,690	$48,668
Adjustments to reconcile net income to net cash provided by operating activities:			
Derivative losses (gains)	456	5,652	(6,097)
Asset related amortization — premiums, discounts, and basis adjustments	5,321	3,518	4,627
Debt related amortization — premiums and discounts on certain debt securities and basis adjustments	(8,295)	(5,368)	(6,779)
Losses (gains) on extinguishment of debt	240	422	(446)
(Benefit) provision for credit losses	(2,665)	58	(2,465)
Losses (gains) on investment activity	1,878	(1,287)	1,545
Deferred income tax expense (benefit)	1,655	2,284	(23,422)
Purchases of mortgage loans acquired as held-for-sale	(41,728)	(24,593)	(23,103)
Sales of mortgage loans acquired as held-for-sale	36,034	21,995	28,123
Repayments of mortgage loans acquired as held-for-sale	150	67	167
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(867)	(932)	(1,302)
Change in:			
Accrued interest receivable	(40)	116	725
Accrued interest payable	(43)	(440)	(849)
Income taxes receivable	1,022	268	117
Other, net	(428)	(565)	(2,957)
Net cash (used in) provided by operating activities	(934)	8,885	16,552
Cash flows from investing activities			
Purchases of trading securities	(40,614)	(42,477)	(53,753)
Proceeds from sales of trading securities	14,847	18,513	57,380
Proceeds from maturities of trading securities	16,377	17,118	12,542
Purchases of available-for-sale securities	(6,818)	(25,290)	(9,681)
Proceeds from sales of available-for-sale securities	18,900	32,062	24,675
Proceeds from maturities of available-for-sale securities	20,807	20,734	33,630
Purchases of held-for-investment mortgage loans	(122,082)	(75,298)	(79,028)
Proceeds from sales of mortgage loans held-for-investment	2,727	454	196
Repayments of mortgage loans held-for-investment	302,364	241,552	410,455
(Increase) decrease in restricted cash	(5,998)	3,730	2,327
Net proceeds from dispositions of real estate owned and other recoveries	3,650	7,712	11,274
Net (increase) decrease in securities purchased under agreements to resell	(11,741)	10,480	(24,820)
Derivative premiums and terminations and swap collateral, net	(749)	(3,888)	6,062
Changes in other assets	(12,724)	(134)	—
Net cash provided by investing activities	178,946	205,268	391,259
Cash flows from financing activities			
	174,561	124,887	113,841

Proceeds from issuance of debt securities of consolidated trusts held by third parties			
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(316,306)	(262,920)	(430,118)
Proceeds from issuance of other debt	610,091	451,854	701,342
Repayments of other debt	(646,176)	(508,710)	(742,510)
Payment of cash dividends on senior preferred stock	(5,510)	(19,610)	(47,591)
Changes in other liabilities	(5)	(7)	(7)
Net cash used in financing activities	(183,345)	(214,506)	(405,043)
Net (decrease) increase in cash and cash equivalents	(5,333)	(353)	2,768
Cash and cash equivalents at beginning of year	10,928	11,281	8,513
Cash and cash equivalents at end of year	$5,595	$10,928	$11,281
Supplemental cash flow information			
Cash paid for:			
Debt interest	$61,120	$62,257	$65,614
Income taxes	1,095	760	—
Non-cash investing and financing activities (Notes 4, 5 and 6)			

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2. Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "GLOSSARY."

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with GAAP and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated.

We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

We evaluate the materiality of identified errors in the financial statements using both an income statement, or "rollover," and a balance sheet, or "iron curtain," approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

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 $2.0 billion to net cash provided by operating activities, and an increase of $2.0 billion to net cash used in financing activities for 2013.

USE OF ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements for establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, and assessing impairments on investments. Actual results could be different from these estimates.

CHANGE IN ESTIMATE

Adoption of Regulatory Guidance on Determining when a Loan is Uncollectible

On January 1, 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets, including guidelines for recognizing charge-offs on certain single-family loans. We analyze loans for collectability based on several factors, including, but not limited to:

- Servicing actions that indicate the potential for near-term loss mitigation, such as whether we have achieved quality borrower contact;
- Credit risk factors, such as whether the loan is in a state with foreclosure practices that prevent timely resolution of delinquencies; and
- Loan characteristics that indicate whether repayment is likely to occur, such as the borrower's payment history, loan status, and historical performance of loans with similar characteristics.

Upon adoption, we changed the timing of when we deem certain single-family loans to be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for loans that have been deemed uncollectible prior to foreclosure, based on the factors identified above.

This adoption resulted in a reduction to both the recorded investment of loans, held-for-investment, and our allowance for loan losses of $1.9 billion on January 1, 2015. However, these additional charge-offs did not have a material impact on our comprehensive income for 2015, as we had already reserved for these losses in our allowance for loan losses in prior periods.

CONSOLIDATION AND EQUITY METHOD ACCOUNTING

For each entity with which we are involved, we determine whether the entity should be consolidated in our financial statements. We generally consolidate entities in which we have a controlling financial interest. The method for determining whether a controlling financial interest exists varies depending on whether the entity is a VIE. For entities that are not VIEs, we hold a controlling financial interest in entities where we hold a majority of the voting rights or where we are able to exercise control through substantive participating rights or as a general partner. We do not currently consolidate any entities which are not VIEs. We use the equity method to account for our interests in entities in which we do not have a controlling financial interest, but over which we have significant influence.

CASH AND CASH EQUIVALENTS

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS

Cash collateral accepted from counterparties that we do not have the right to use for general corporate purposes is recorded as restricted cash in our consolidated balance sheets. Restricted cash includes cash remittances received from servicers of the underlying assets of our consolidated trusts, as well as cash remittances received on mortgage loans we own, which are deposited into a separate custodial

account. We invest the cash held in the custodial account in short-term investments and are entitled to the interest income earned on these short-term investments, which is recorded as interest income, other on our consolidated statements of comprehensive income.

COMPREHENSIVE INCOME

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income (loss) plus after-tax changes in:

- The unrealized gains and losses on available-for-sale securities;
- The effective portion of derivatives accounted for as cash flow hedge relationships; and
- Defined benefit plans.

OTHER SIGNIFICANT ACCOUNTING POLICIES

The table below identifies our other significant accounting policies and the related note in which they can be found.

Accounting Policy	Note
Variable Interest Entities	Note 3
Financial Guarantees	Note 3
Loans and Allowance for Loan Losses	Note 4
Real Estate Owned	Note 5
Investments in Securities	Note 6
Debt	Note 7
Derivatives	Note 8
Collateralized Agreements and Offsetting Arrangements	Note 9
Repurchase and Resale Agreements and Dollar Roll Transactions	Note 9
Earnings Per Share	Note 10
Stockholders’ Equity	Note 10
Income Taxes	Note 11
Segment Reporting	Note 12
Fair Value Measurements	Note 14

RECENTLY ISSUED ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (Topic 323)	The amendment permits entities to elect to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met.	January 1, 2014	The adoption of this amendment did not have a material effect on our consolidated financial statements.
ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Loans upon Foreclosure (Topic 310)	The amendment clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or 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.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (Topic 860)	The amendment requires repurchase-to-maturity transactions to be accounted for as secured borrowings and requires separate accounting for a transfer of a financial asset completed contemporaneously with a repurchase agreement with the same counterparty.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.
ASU 2014-14, Classification of Certain Government-Guaranteed Loans upon Foreclosure (Topic 310)	The amendment requires that a 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.	January 1, 2015	The adoption of this amendment did not have a material effect on our consolidated financial statements.

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

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810)	The amendment affects reporting entities that are required to evaluate whether they should consolidate certain legal entities.	January 1, 2016	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30)	The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.	January 1, 2016	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14	The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year.	January 1, 2018	We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The amendment addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments.	January 1, 2018	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS
BUSINESS OBJECTIVES

We operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. The Conservator 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 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 Conservatorship Scorecards). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. Some of these initiatives impact our near- and long-term financial results. Given our public mission and the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions, we may be required to take actions that could have a negative impact on our business, operating results or financial condition, and thus contribute to a need for additional draws under the Purchase Agreement.

In May 2014, FHFA issued its 2014 Strategic Plan, which updated FHFA's vision for implementing its obligations as Conservator of Freddie Mac and Fannie Mae and established three reformulated strategic goals. FHFA has also issued its Conservatorship Scorecards for 2014, 2015, and 2016. The Conservatorship Scorecards establish objectives and performance targets and measures for Freddie Mac and Fannie Mae (the “Enterprises”) related to the strategic goals set forth in the Strategic Plan.

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

- Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced loans 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. 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. However, in 2015 FHFA allowed loans in certain affordable and underserved market segments to be excluded from the production cap. This allowance was maintained in the 2016 Conservatorship Scorecard with slight modification.

The second goal focuses on ways to transfer 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, continue using credit risk transfer transactions in the multifamily business and continue shrinking our mortgage-related investments portfolio consistent with the requirements in the Purchase Agreement, with a focus on selling less liquid assets.

The third goal includes the continued development of the Common Securitization Platform. 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 also provides for the Enterprises to work towards the development of a single (common) security.

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 retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury, the holder of our senior preferred stock. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist. 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 it is possible and perhaps likely that there will be significant changes beyond the near term. We have no ability to predict the outcome of these deliberations.

PURCHASE AGREEMENT AND WARRANT

Overview

On September 7, 2008, we, through FHFA, in its capacity as Conservator, entered into the Purchase Agreement with Treasury. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. The amount of available funding remaining under the Purchase Agreement was $140.5 billion as of December 31, 2015. This amount will be reduced by any future draws.

The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time,

that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury's funding commitment, we issued to Treasury, as an aggregate initial commitment fee one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock, and a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury for issuing the senior preferred stock or the warrant.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers and privileges of the Board. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013.

For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend will accrue or be payable for that quarter. The applicable Capital Reserve Amount was $1.8 billion for 2015, will be $1.2 billion for 2016, and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The amounts payable for dividends on the senior preferred stock could be substantial and will have an adverse impact on our financial position and net worth. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury's funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had previously waived the fee for all prior quarters.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock will increase further if we receive additional draws under the Purchase Agreement or if any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash. We may need to make additional draws in future periods due to a variety of factors that could adversely affect our net worth.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio.
The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends. However, Treasury's consent is required for a termination of conservatorship other than in connection with receivership. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028.

Purchase Agreement Covenants

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

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

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own. The Purchase Agreement, as revised in the August 2012 amendment, provides that we could not own mortgage assets with UPB in excess of $650 billion on December 31, 2012, and on December 31 of each year thereafter may not own mortgage assets with UPB in excess of 85% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase

Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain other VIEs in our financial statements as of January 1, 2010.

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

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

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants:

- Our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder;
- Without the prior written consent of Treasury, we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights to any person other than Freddie Mac or its wholly-owned subsidiaries;
- We may not take any action that will result in an increase in the par value of our common stock;
- Unless waived or consented to in writing by Treasury, we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and
- We must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

Termination Provisions

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances:

- The completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time;
- The payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and
- The funding by Treasury of the maximum amount of the commitment under the Purchase Agreement.

In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

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

Third-party Enforcement Rights

In the event of our default on payments with respect to our debt securities or mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of:

- The amount necessary to cure the payment defaults on our debt and mortgage guarantee obligations; and
- The lesser of:

The deficiency amount; and

The maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment.

Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

IMPACT OF CONSERVATORSHIP AND RELATED DEVELOPMENTS ON THE MORTGAGE-RELATED INVESTMENTS PORTFOLIO

For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio could not exceed $399.2 billion at December 31, 2015 and was $346.9 billion at that date. Our Retained Portfolio Plan, which we adopted in 2014, provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement (subject to certain exceptions). 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 are dependent upon its continued support in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement, is critical to:

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

At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended December 31, 2015. Since conservatorship began through December 31, 2015, we have paid cash dividends of $96.5 billion to Treasury at the direction of the Conservator.

Additionally, in recent years, the Federal Reserve purchased significant amounts of mortgage-related securities issued by us, Fannie Mae, and Ginnie Mae.

See Note 7 and Note 10 for more information on the conservatorship and the Purchase Agreement.

HOUSING FINANCE AGENCY INITIATIVE

In 2009, we entered into a Memorandum of Understanding with Treasury, FHFA, and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide assistance to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. FHFA directed us and Fannie Mae to participate in the HFA initiative on a basis that is consistent with the goals of being commercially reasonable and safe and sound. Treasury's participation in these assistance initiatives does not affect the amount of funding that Treasury can provide to Freddie Mac under the Purchase Agreement.

The primary initiatives are as follows:

- TCLFP - In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to provide $8.2 billion of credit and liquidity support, including outstanding interest at the date of the guarantee, for variable rate demand obligations, or VRDOs, previously issued by HFAs. This support was provided through the issuance of guarantees, which provide credit enhancement to the holders of such VRDOs and also create an obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury provided a credit and liquidity backstop on the TCLFP. These guarantees replaced existing liquidity facilities from other providers. The guarantees were scheduled to expire on December 31, 2012. However, Treasury gave TCLFP participants the option to extend their individual TCLFP facilities to December 31, 2015 and certain participants elected to do so. No outstanding guarantees existed as of December 31, 2015.
- NIBP - In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to issue in total $15.3 billion of partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. Treasury purchased all of the pass-through securities issued by Freddie Mac and Fannie Mae. This initiative provided financing for HFAs to issue new housing bonds.

Treasury will bear the initial losses of principal up to 35% of total principal for these two initiatives combined, and thereafter Freddie Mac and Fannie Mae each will be responsible only for losses of principal on the securities that it issues to the extent that such losses are in excess of 35% of all losses under both initiatives. Treasury will bear all losses of unpaid interest. Under both initiatives, we and Fannie Mae were paid fees at the time bonds were securitized and are also paid ongoing fees for as long as the bonds remain outstanding.

RELATED PARTIES AS A RESULT OF CONSERVATORSHIP

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the U.S. government. During the years ended December 31, 2015, 2014, and 2013, no transactions outside of normal business activities have occurred between us and the U.S. government (or any of its related parties), except for the following:

- The transactions discussed with Treasury above in “Purchase Agreement and Warrant,” “Government Support for our Business” and “Housing Finance Agency Initiative”;
- The transactions discussed in Note 4, Note 7, and Note 10; and
- The allocation or transfer of 4.2 basis points of each dollar of new business purchases to certain housing funds as required under the GSE Act.

In addition, we are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business in conservatorship. In October 2013, FHFA announced the formation of CSS. CSS is equally-owned by Freddie Mac and Fannie Mae. In connection with the formation of CSS, we entered into a limited liability company agreement with Fannie Mae. 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. During the year ended December 31, 2015, we contributed $66 million of capital to CSS.

NOTE 3: SECURITIZATION AND GUARANTEE ACTIVITIES

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

CONSOLIDATION OF VIEs AND ACCOUNTING FOR GUARANTEES

We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE. We are the primary beneficiary of a VIE when we have both the power to direct the activities of the VIE that most significantly impact its economic performance and exposure to losses or benefits of the VIE that could potentially be significant to the VIE. We evaluate whether we are the primary beneficiary of VIEs in which we have interests on an ongoing basis, and our primary beneficiary determination may change over time as our interest in the VIE changes.

When we consolidate a VIE, we recognize the assets and liabilities of the VIE on our consolidated balance sheets and account for those assets and liabilities based on the applicable GAAP for each specific type of asset or liability. Assets and liabilities that we transfer to a VIE at, after, or shortly before the date we become the primary beneficiary of the VIE are initially measured at the same amounts that they would have been measured if they had not been transferred, and no gain or loss is recognized on these transfers. For all other VIEs that we consolidate, we recognize the assets and liabilities of the VIE at fair value, and we recognize a gain or loss for the difference between:

- The sum of the fair value of the consideration paid, the fair value of any noncontrolling interests, and the reported amount of any previously held interests; and
- The net fair value of the assets and liabilities recognized. Guarantees to consolidated VIEs are eliminated in consolidation and are therefore not separately recognized on our consolidated balance sheets.

When we provide, either to an unconsolidated VIE or to another third party, a guarantee that exposes us to incremental credit risk, we recognize both a guarantee obligation at fair value and the consideration we receive for providing the guarantee, which typically consists of a guarantee asset that represents the fair value of future management and guarantee fees. As a practical expedient, the measurement of the fair value of the guarantee obligation is set equal to the consideration we receive to provide the guarantee, and no gain or loss is recognized upon issuance of the guarantee. Subsequently, we recognize changes in the fair value of the guarantee asset in current period earnings and amortize the guarantee obligation into earnings as we are released from risk under the guarantee. We also recognize a reserve for guarantee losses when it is probable that a loss has been incurred under the guarantee.

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

(in millions)	December 31, 2015	December 31, 2014
Consolidated Balance Sheet Line Item		
Assets:		
Cash and cash equivalents	$—	$2
Restricted cash and cash equivalents	14,529	8,532
Securities purchased under agreements to resell	14,840	13,500
Mortgage loans held-for-sale	1,403	—
Mortgage loans held-for-investment	1,625,184	1,558,094
Accrued interest receivable	5,305	5,124
Real estate owned, net	40	44
Other assets	2,591	